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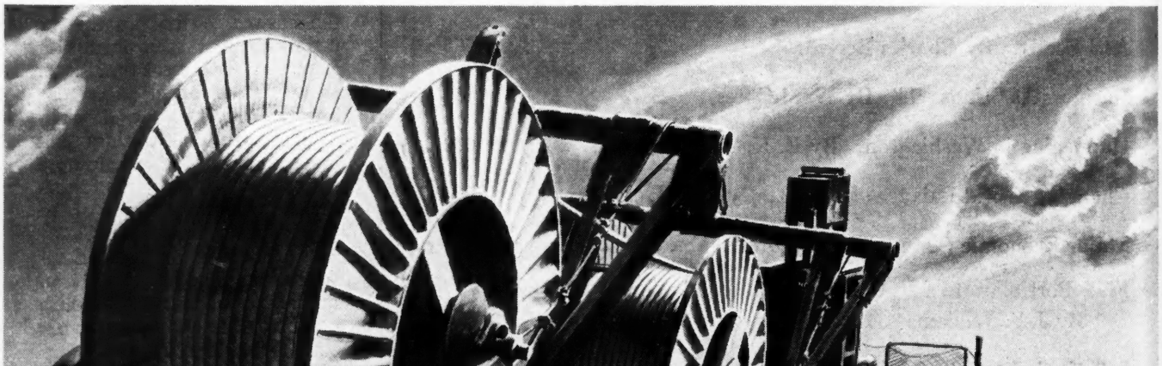
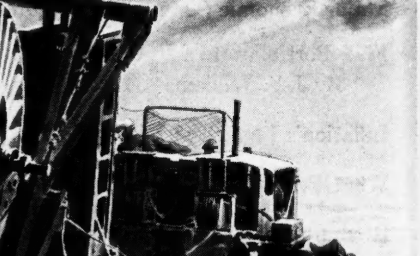
Big as it is, this job is only a small part of the Bell System's share in national defense.

LONG DISTANCE helps unite the nation

"THE TELEPHONE HOUR" *is broadcast every Monday evening over the N.B.C. Red Network*





Here's *the new cable route—from Omaha to Cheyenne, to Denver, to Salt Lake City, to Sacramento. The special plow in the picture cuts a deep, narrow trench, lays two cables, and refills, in one continuous operation. Each plow can cover several miles a day under favorable conditions.*

THE MAGAZINE OF WALL STREET

C. G. Wyckoff, *Publisher*

Laurence Stern, *Managing Editor*

What Are You Waiting For?

"I haven't done anything in more than two years—haven't bought any stuff; haven't let anything go. Got a little money in the bank but I'm scared to invest it."

These words were spoken to us recently by an old friend—a man dependent on investment income. His case is perhaps extreme but far from unique. The majority of investors are just "sitting tight." Why? The typical answer is: "Because the future is so uncertain."

But the future always has been uncertain and always will be. It was uncertain in 1929, although most assumed otherwise. It was uncertain in 1932, when many believed our industrial "over-capacity" would never again be fully utilized. It is uncertain today—except that defense spending guarantees an unprecedented level of economic activity for an indefinite period of years to come.

None of us, to be sure, can see around the corner. But we can see *changes in the current direction of the winds and tides which affect investment values for good or ill.* And in most instances it is possible to act upon them *before* they have exerted their maximum effect.

Every investor must have some general *objective.*. It may be preservation of capital. It may be appreciation of capital. But whatever it is, obviously it cannot be attained by "sitting tight," by waiting for something to happen that will "clarify" the general outlook.

The "do nothing" investor is like a ship without a rudder—aimlessly pushed around by the winds. In storm-swept seas—and present investment seas *are* storm-swept—there is danger in drift or in trying to anchor to a fixed position "for the duration." To get anywhere you have got to *steer* the boat.

You have no chart to the routes that lay beyond the horizons. You can only steer an opportunist course in a general direction, try to take advantage of wind and tide, keep constantly on watch for the inevitable shoals, promptly alter course at sign of danger.

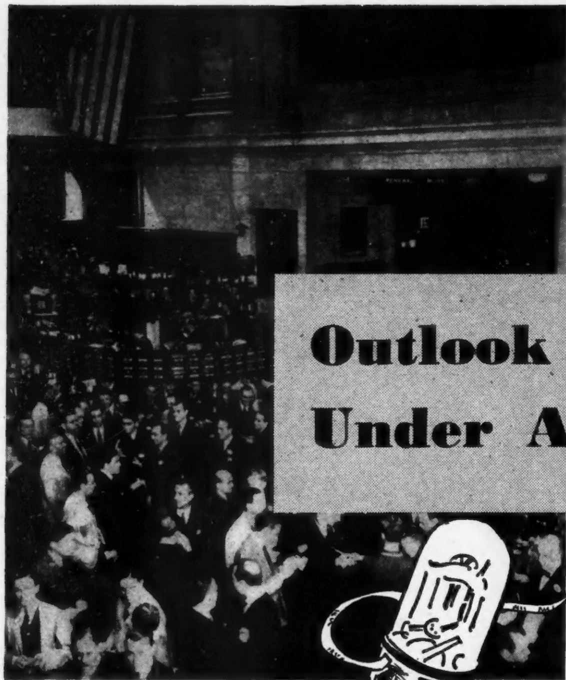
In this there is some risk and uncertainty—but much *less* of both than in merely drifting or remaining frozen to your anchor. If you have held that anchor—your portfolio of securities—for any length of time, very likely there is some material in it which no longer serves your objective. If so, it is sheer folly not to act—whether upon your own judgment or that of qualified advisers.

But with the market "averages" so inclined to "do nothing," you may ask: "Is there any opportunity for me to act?" Pardon us if we say the question is silly. You do not buy or sell the "averages" or sit tight on them. *Individual securities* constitute your life preserver—or millstone. Can these experience important change in value? Here are just a few of many examples:

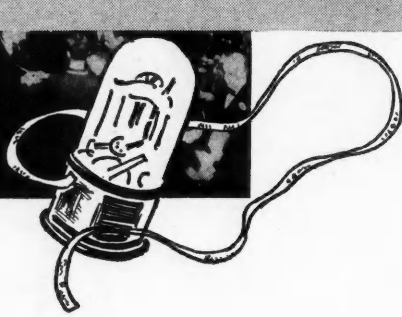
From the start of the war up to this writing net losses ranging from 28 to 46 per cent have been shown by these six stocks: Consolidated Edison, Commercial Credit, Holland Furnace, American Snuff, National Biscuit, Woolworth. Over the same period Mack Truck *advanced* 64 per cent; Timken-Detroit Axle, 144 per cent; International Paper, 153 per cent; Curtiss-Wright, 216 per cent; New York Shipbuilding, 240 per cent; Savage Arms, 528 per cent. The *scope* of these changes was not predictable, but in each case favorable or unfavorable *trend factors* were there for any alert eye to see—and see early enough for profitable action.

Ancient history? Well, here are more recent examples. During *this year* to date there have been net advances of 28 to 110 per cent in Standard Oil of New Jersey, Case, Paramount, Skelly Oil, Deere, Interstate Department Stores. Since *June* 30 there have been gains of 15 to 58 per cent in International Nickel, U. S. Rubber, Consolidated Aircraft, Safeway Stores, Lockheed, Allied Stores.

However the "averages" may move, it is absolutely certain the future will bring new influences into play, new divergences in security price trends, large gains for some securities, large losses for others. Not by "doing nothing" can you avoid or minimize the risks of the future—or capitalize on its opportunities as they develop. It is to give you such help as we can with the problems facing you in this third year of the Second World War that this entire issue is dedicated.



Outlook for Security Prices Under Adjustments to War



Gendreau Photo

BY A. T. MILLER

BEGINNING with the early spring of 1938, when the Germans forcibly absorbed Austria, the most significant characteristic of the stock market became its increasing sensitivity to European developments. Most of the broader swings in the averages—and especially the declines—were associated directly and immediately with foreign news.

Over the past sixteen months, however, the cumulative circumstantial evidence has indicated an increasing psychological immunity, among investors and speculators, to foreign news shocks and to foreign contingencies. There is now a long background of support, technical and otherwise, for our conviction that fear of what Hitler could or would do reached its emotional peak in the climactic market decline which accompanied the German sweep through the Low Countries and into France.

Since the autumn of last year, when the *Luftwaffe* tried, and failed, to gain mastery of the air over England, Hitler's chances of bringing Britain to her knees through siege or invasion have steadily deteriorated—in fact, in the writer's belief, any possibility of his winning the all-important Battle of the Atlantic has gone by the board. Even assuming the worst contingencies in Russia, the Near East, North Africa and the Mediterranean basin between now and next spring, for the stock market there is no "shock potential" in these areas remotely comparable to that represented by the French collapse and its accompanying threat of an imminent Nazi assault on an England then woefully weak in arms.

Our retreating stock market made a defensive stand in the late spring of last year at lows represented by 111.84 for the Dow-Jones industrial average and 45.3 for this publication's weekly index of 290 issues—the latter providing the more realistic picture for the market as a whole. While Hitler has continued to advance in various directions other than toward England, the market has persistently maintained the same unbroken line of resistance. The lows of last May were 115.30, Dow-Jones, and 46.3 for our weekly index. Despite recent reaction, the present market is still above these defensive levels by a fairly comfortable margin.

Nevertheless, the state of mind reflected by the market continues to be one of caution, skepticism, uneasiness. The chief reason is not hard to find. It is this: Broadly speaking, the focal point of the more effective inhibitions now restraining investment and speculative demand for securities has shifted progressively from Berlin to Washington.

Moneyed people are uncertain or scared of what the war policies of the Roosevelt Administration will do to corporate profits and dividends over nearby months or years—and to the private enterprise system itself over the longer future. Typical in a smallish, but significant, way of this major change in the psychological background of the market is the fact that the recent fall of Kiev in the further German smash through the Ukraine was taken by the market as merely a mild disappointment, whereas announcement by the Secretary of the Treasury of a new Administration tax drive touched off the heaviest volume of jittery selling seen in some months.

A year ago, had you been able to corner the "average

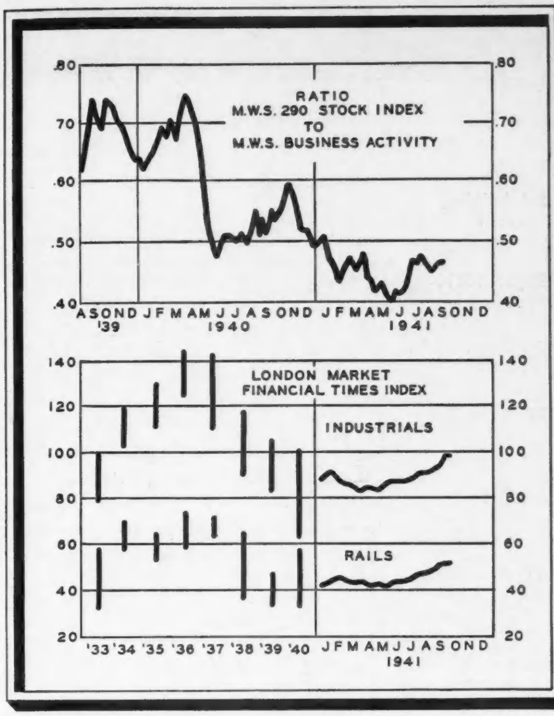
investor" and ask why he was afraid to buy stocks, undoubtedly the first item of his reply would have had to do with Hitler and Britain's chances for survival. Today, if you put a similar question to him, the chances are that the first thing he will mention will be prospective corporate taxes.

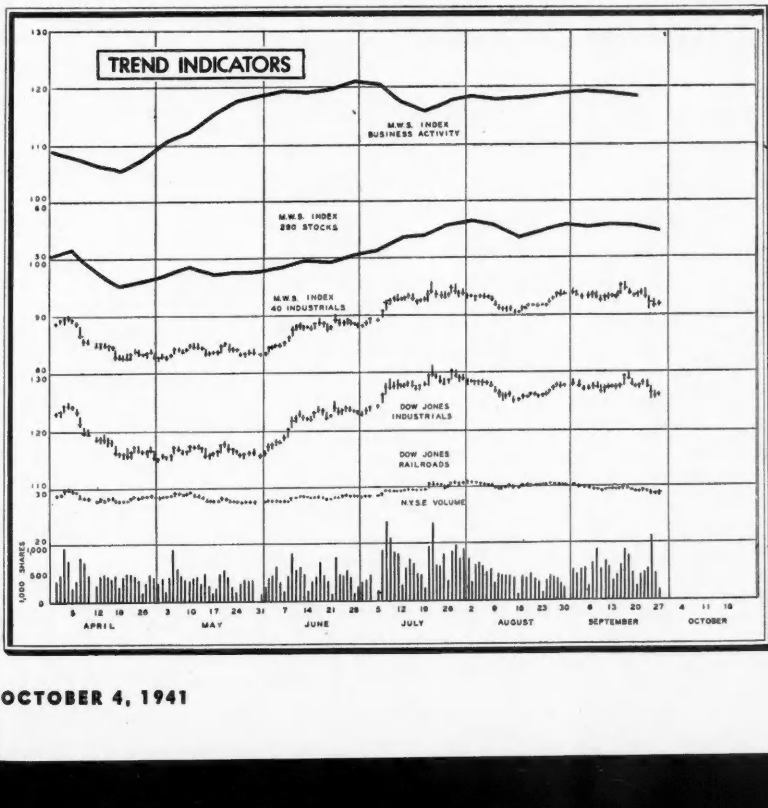
Well, if one had to assume that the Administration in due time will succeed in inducing Congress to pass a tax law under which the Government would appropriate all corporate earnings above a 6 per cent return on invested capital—as asked by Secretary Morgenthau—it would be necessary to predict an early and rip-roaring bear market because the number of individual stocks devastatingly affected by such a tax would be sufficient to lower the industrial average decisively.

This concept of taxation—as well as the relatively low maximum rate of return suggested—is so grotesquely inequitable that we do not believe it has a ghost of a chance of being accepted by Congress. But the mere fact that the Administration is thinking along such lines merits brief examination of some representative examples of the present widely varying rates of return earned on invested capital in different types of enterprises.

For tax purposes we do not know by what precise formula Mr. Morgenthau would like to define "invested capital." But if we assume an invested capital figure somewhere between a corporation's net worth—that is, book value of stock capitalization plus surplus—and its total assets, we get a sufficiently revealing idea of how such a tax would work.

General Motors' earnings last year, for instance, were equal to a return of about 18 per cent on net worth and 12.7 per cent on total assets; while for Chrysler, with a faster turnover of a smaller capital, the corresponding percentages were 23.4 and 14.1. Their return this year will be somewhat lower, and probably still lower next year as the full impact of curtailed civilian production is felt without full offset from profits on defense work. But they would be hard hit in any event by such a tax.



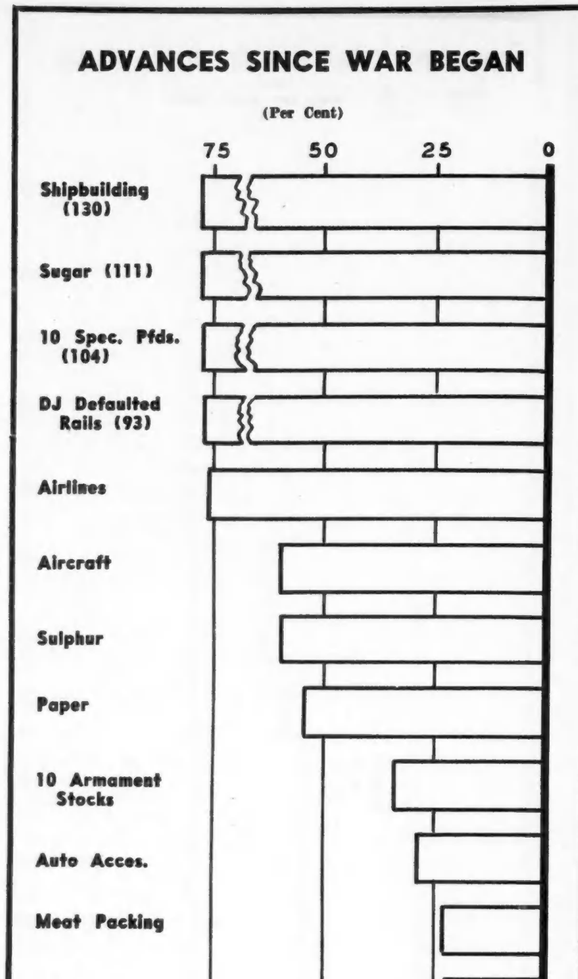


Among the most adversely affected would be companies whose profits have been built up largely through advertising, good will and competitive progress in trade standing, rather than as a result of large invested capital. Even here, however, there are very wide variations in individual situations. For example, last year the Coca-Cola Company earned 37.9 per cent on its net worth and 26.8 per cent on its total assets; Bristol-Myers 30.3 per cent and 25.1 per cent, respectively; General Foods, 18.1 per cent and 15.6 per cent; Sterling Products, 22.3 and 16.1; American Chicle, 33.8 and 27.7; American Tobacco, 12.9 and 9.5; National Biscuit, 9.7 and 7.3.

But relatively high returns on invested capital are by no means limited to such as these. For example, McGraw Electric, maker of small household appliances, last year earned 33.8 per cent on its net worth, 26.8 per cent on its total assets. And Mesta Machine, maker of the heaviest kind of capital goods, earned 23.5 per cent and 16.4 per cent, respectively.

Aircraft manufacturers would be hurt badly. United Aircraft last year netted 36 per cent on net worth, 9.94 per cent on total assets—and, relative to earning power, has a larger investment than most in the field. For Bendix Aviation the figures were 20.4 and 12.9.

Among those relatively favored by heavy capital investment under such a tax would be the railroads, utilities, most steel companies, rail equipments, oils and farm equipments.



United States Steel last year earned 7.5 per cent on net worth and 5.5 per cent on total assets; Bethlehem Steel, 10.1 per cent and 6.3 per cent, respectively. Standard Oil (New Jersey) netted 8.1 and 5.9; Phillips Petroleum, 6.6 and 5.1; New York Air Brake, 7.7 and 6.8; Baldwin Locomotive, 4.1 and 2.5; International Harvester, 6.8 and 4.04; Oliver Farm Equipment, 4.1 and 3.3; Deere & Co., 5.6 and 13.2.

Some miscellaneous examples, on the basis of 1940 operating figures, are: U. S. Rubber, 10.6 on net worth, 5.9 on total assets; International Paper, 10.2 and 6.8; J. C. Penney, 19.5 and 15.5; Sears, Roebuck, 13 and 10.3; New York Shipbuilding, 34.8 and 14.04; Owens-Illinois Glass, 10.4 and 8.1; National Distillers, 13.8 and 8.3; National Dairy Products, 10.8 and 5.6; General Electric, 18.2 and 12.9; Westinghouse Electric, 9.7 and 7.85; American Can, 11 and 8.8; Wrigley, 14.7 and 13.3; Paramount Pictures, 9.7 and 5.9; Monsanto Chemical, 13.2 and 10.6; Union Carbide, 14.6 and 11.6; Eastman Kodak, 12.3 and 9.4.

The Tax Threat

In this country the governmental appetite for tax revenues has become insatiable, with political considerations strongly influencing the distribution of the burden. In that respect, the British Government, after two years of all-out involvement in war, is more "conservative" than the Roosevelt Administration. The British personal income tax on the middle and lower classes is far heavier than here and begins on incomes as low as 120 pounds for single persons and 225 pounds for married persons, equivalent at $480 and $900, respectively. Britain's present corporation tax is heavier than the present U. S. tax but far less onerous than the Morgenthau proposal. Probably partly because the British corporate taxes can be regarded as virtually at maximum for the war period—thus giving investors and speculators a relatively stable tax situation to figure on—the London market for many months has shown far more confidence than the New York market.

We have had a new Federal tax law—two in some years—in every year since President Roosevelt's first inauguration. As long as the prospect indicates probability of recurrent, piecemeal revisions upward, this will necessarily remain a factor of important stock market uncertainty. It is more the unknown than the known, however adverse, which inhibits investment and speculative decisions. In the event that the status of this country becomes one of formal belligerency—and that is far from impossible—the event *of itself* probably would prove to have been discounted by the stock market; and we could probably expect enactment by Congress of a tax law which would pretty well "stay put" for the duration of the war. In that case, whatever the initial effects upon corporate earnings and the selective repercussions upon values of individual securities, the potentiality for market advance, both general and selective, would be much improved.

When all is said and done the American stock market is a state of mind far more than a complex of statistics relating to earnings per share, dividends, taxes, etc. United States Steel common is priced at 55 as we write this—while speculators wonder whether it will earn only

$8 a share this year or closer to $10! We have seen it priced many points higher in years in which it did not earn a dime, but in which speculators and investors looked upon the unpredictable future with hope.

If the potentiality for advance in the general level of stock prices depended entirely upon the question of an upward trend of earnings, it could be dismissed with thumbs down right now. Despite a minority of exceptions, for American industry as a whole a ceiling has already been put on net profits. Allowing for the practical certainty of some type of increase in corporate taxes next year, aggregate business earnings in all probability will be somewhat lower than for 1941, despite the off-setting benefit of record-breaking volume.

But, as we have emphasized from time to time in previous articles, the real potentiality for market rise centers in the *capitalization* of corporate earning power—higher price-earnings ratios. That, of course, gets right back to the state of mind. There are two predictable contingencies which, in our opinion, would probably tend to increase investment and speculative confidence: (1) formal war status for this country; (2) the enactment of a tax law which would give investors a fixed basis for calculation either for the duration of the war or at least for a considerable period of time to come—provided the tax were as equitable, even though virtually as severe—as, say, the present British corporate taxes.

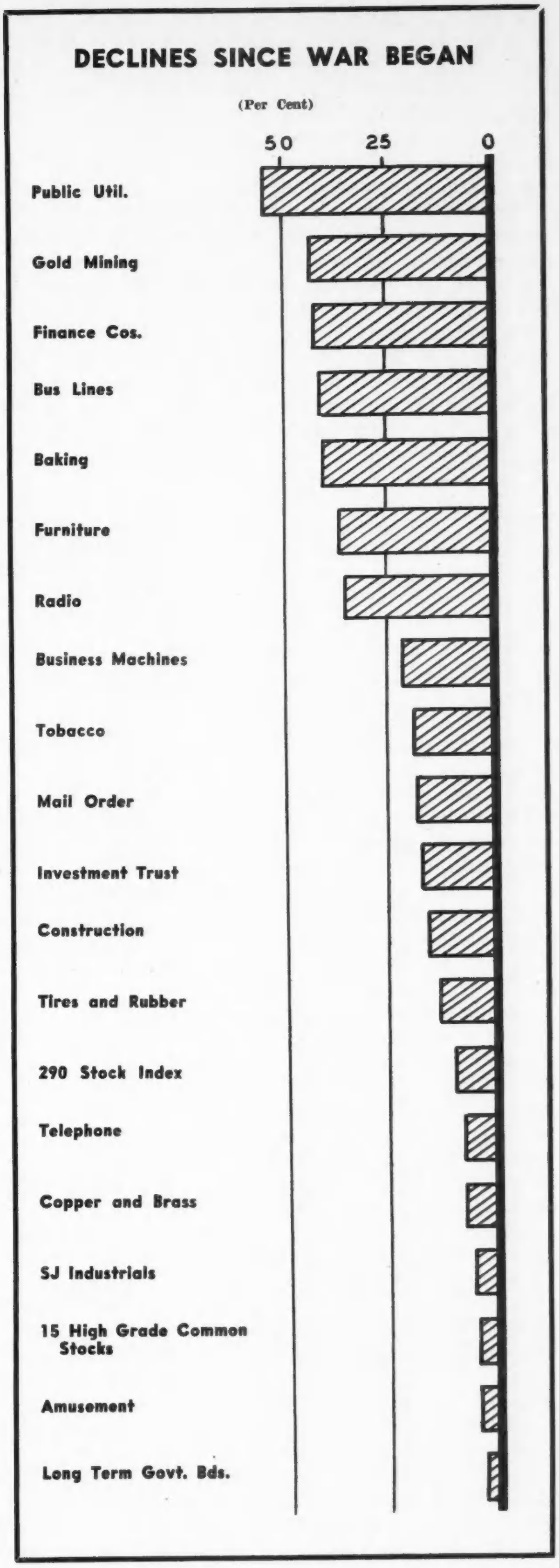
Earlier in this analysis we commented on the 16-months base of resistance indicated by the average lows of June, 1940, and May, 1941. Naturally, the longer the time span of such a base, the stronger are the technical grounds for confidence in its solidity. As a matter of fact, for the great majority of common stocks—their status being more broadly reflected in our weekly index of 290 of the more active issues than in the Dow-Jones 30 selected industrials—this resistance base is far longer than 16 months.

Taking the bottoms of the worst years all the way back through 1934, we get the following picture: 1934, 45.4; 1935, 43.9; 1938, 44.2; 1939, 50.7; 1940, 45.3; 1941 to date, 46.3. In other words, over this span of nearly *eight years*—whether market inhibitions related to major business depression or to war uncertainties—we see a persistent tendency for the bottoms in this inclusive stock index to cluster close to the range 44-46. Its position at the close of last week was 53.6.

We do not say that this defensive line is unbreakable, come hell or high water—but surely it would seem reasonable to hold that it has weathered some tremendous pressures; and to doubt very much that, on the corporate earnings front, it is going to be subjected to a pounding anywhere near equal to that of 1934, or that, on the war front, it can be expected to meet any assault comparable to that of May-June, 1940, when the Nazis swept through to the English Channel.

On the basis of results thus far this year, and taking into account the higher taxes recently enacted, an index of the earning power of 200 leading corporations for 1941 will probably approximate 87 to 89 per cent of the 1926 average or but slightly higher than for 1940.

Yet in 1934, with the same earnings index at a level averaging but little more than *one-third* that for the present year, our weekly index of 290 stocks ranged between a low of 45.5 and a high of 71.2 for a maximum



spread of 25.7 points; compared with low of 46.3 and high of 56.9 for 1941 to date or maximum spread of only 10.6 points.

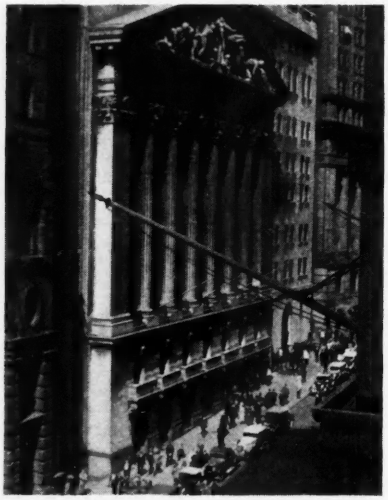
If this year's earnings were cut in half, the resulting aggregate would approximate the earning power of the depression year 1938—in which our inclusive index of stock prices ranged between low of 44.2 and high of 77.2 for a maximum spread of 33 points.

We not only don't believe Mr. Morgenthau's ridiculous tax proposal will be adopted; we also don't believe any forthcoming tax increase will cut the present aggregate level of business earning power by anywhere near the 50 per cent that would be required to put it back to 1938.

On the one hand, the uncertainties of the war and of our war-economy are formidable—but pretty obvious, which ought logically to tend to minimize their sting for the market. On the other hand, a well-defined *eight-year* resistance base for the market as a whole, only moderately under the present level, seems to imply that the threat of serious decline is more apparent than real and that the potentiality for down movement is relatively modest.

If this is true, what is the income investor waiting for? Among common stocks, as well as among preferred stocks and bonds of medium or speculative grade, there are now available for the discriminating buyer many yields which are both generous and reasonably secure.

And what more could the speculative-investor demand? We mean the man who is normally addicted to buying sound values and good yields when most others are "waiting to see" whether prices will go somewhat lower, and who is content to bide his time while awaiting the eventual reward of capital appreciation.



Gendreau Photo

Certainly until or unless we see much more convincing reason to do so than we can see at present, we are not going to alter our belief that the situation and outlook call for relatively heavy commitment of investment funds in selected securities. As a generality, we favor an 80 per cent invested position at present, although naturally the individual circumstances of some may validly dictate a liquidity greater than 20 per cent and of a minority of others somewhat less.

Although the most spectacular net gains for the war period to date have centered chiefly in a minority of "war babies," it would be highly risky to assume that these trends and divergences will continue to be maintained. The factors responsible for the relatively favorable earnings outlook of one company and for the subdued profit outlook of another have their price in the market. It is naturally high in the first case—and may prove too high; low in the second case, and may prove to have over-discounted adversity.

For instance, everybody and his brother has long been bearish on, or skeptical of, General Motors and Chrysler. They have put their top earnings behind for an indefinite time to come. Their profitable civilian business over the next twelve months will be cut at least in half. The extent to which this may be offset by profits on defense work is problematical. Such was the consensus—quite valid—which induced broad decline in these stocks.

But *after* such decline has occurred, the consensus (quite logically) begins to change. It goes like this: They are already well down; they will have at least some profits and probably pay dividends and, should the war end, they have a sounder longer term prospect than such high-flying war industries as aircraft, rail equipments, machine tools, etc., and therefore ought to be entitled to a correspondingly higher market capitalization of earnings.

The two stocks, which we mention merely to point a moral, stabilized in a very narrow range of fluctuation over a period of several months at levels closely approximating their 1939 and 1940 lows. Recently they began to edge up, and have shown exceptionally good resistance to date in the "Morgenthau reaction."

One of the encouraging market developments of recent months and weeks has been the tendency of various of the erstwhile "war casualties" to pull away from their lows—some by a very wide margin. The list includes International Nickel, American Metal, Climax Molybdenum, United States Rubber, Hudson Bay Mining. It includes a number of "stable income" stocks, such as General Foods, Safeway Stores, General Mills, Procter & Gamble. It also includes various of the "growth situations" not so long ago in the dog house, such as Union Carbide and Monsanto Chemical.

It may very well be that before we have gone so very far into this third year of the war a more solid consensus will develop that it is going to be a long war, implying the inflationary spending of countless billions of Government money for an indefinite period of years to come. Such a conviction might conceivably induce higher price-earnings ratios for "war stocks," especially if it were bolstered by some degree of stabilization in the tax prospect.

But to become "married" to any security in this world of fast change is foolhardy in the extreme and that is especially so of equities for which present profits represent a windfall of direct Government money: namely, the "war stocks." They will continue—whether prices rise or not—to command lower price-earnings ratios than stocks of such "peace enterprises" as are sufficiently well situated to have a better than even chance of weathering this period of storm and of earning at least moderately good profits. In short, we think they should be approached pretty much on a trading basis.

As the pressure for tax revenues increases, it certainly would not be surprising to see Congress lean much farther toward the politically popular—and socially equitable—principle of recapturing more of the "profits of war": that is, the profits almost wholly due to defense orders and most conveniently *(Please turn to page 712)*

As I See It!

BY CHARLES BENEDICT

A HOLY WAR

THE discovery of America in the fifteenth century turned the tide for the oppressed minorities in every European country where men and women were being cruelly tortured for their religious and political beliefs.

The new land across the sea, though only a wilderness, became a holy land for those seeking sanctuary—an opportunity to build anew, each man according to his likes and to the extent of his capacity.

The terrors of the forest, with the lurking danger of attack by Indians and wild beasts, and the rigors of primitive existence, did not deter those seeking a better life. And they succeeded—albeit 'twas not the Utopia of unbridled imagination. Our founding fathers and mothers came to know that even a fresh start, building from scratch, was not proof against the unfathomable quirks of human nature or against the stream of polluted blood that also sought these shores looking for adventure. And yet, it was the mixture of these bloods—the sturdy spirituality, the reckless adventure, that caused men again and again to strike out anew from the Atlantic to the Pacific—that built this great country despite the imperfections of the men of all races and all religions that combined in its development.

Today, having passed through two decades of easy living in which our softness was expanded with our wealth, we are confronted with a decision on which hangs our very existence as a free people—as masters of our own destiny.

Enemies from within and without have exaggerated our delinquencies, and by constant reiteration, make it appear that our faults overshadow our virtues, which they do not.

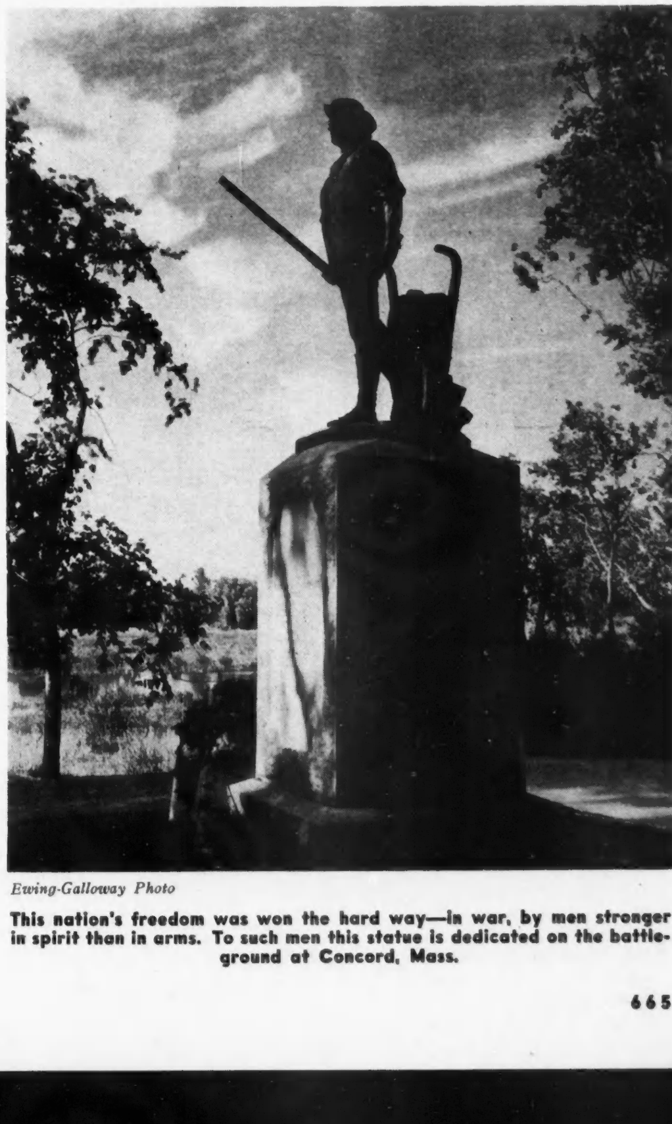
Some of them rant of the "moral degeneracy" of democracy—the small mote in our eye versus the unmentioned beam in theirs. The moral stench of Czarist Russia is still fresh in our recollections. The personal and loathsome degeneracy of more than one high functionary of the Nazi party is a matter of common knowledge in Germany and out. And since the Nazi government has made looting a fine art, it is not surprising that bribery and thievery have been adopted by the lower ranks of officialdom, as reported from occupied France and as undoubtedly practiced in other conquered lands.

But events themselves have proven the illogic of their words. They are helping us to clarify our own minds and ideas as we sift the true from the false.

We know we do not want pagan Hitlerism, with its philosophy of economic slavery. But we can only survive as free people if, like those who came before us, we too are willing to fight for the principles on which this nation was conceived and dedicated—the principles of liberty, justice and equal opportunity for all.

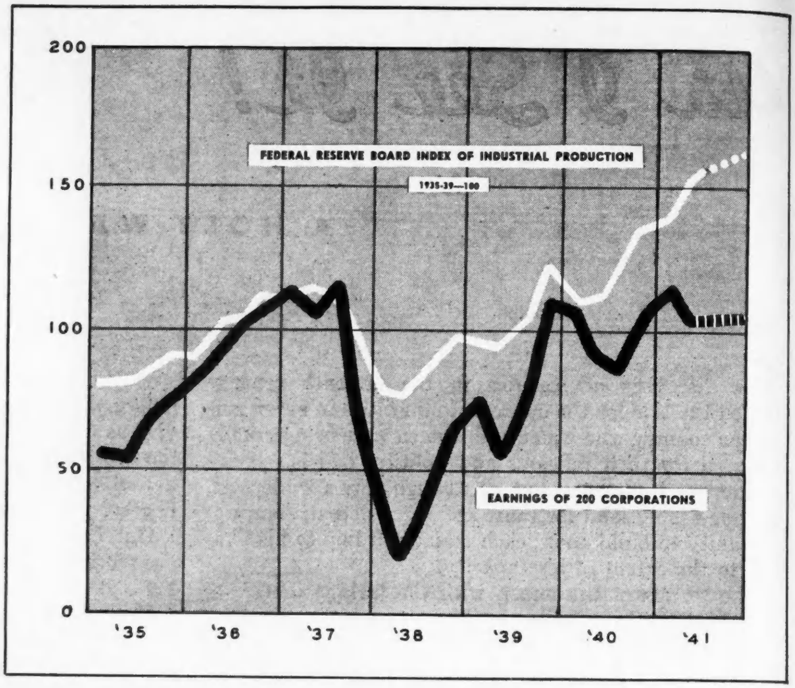
Our courage and stamina will inspire human beings the world over; and bring hope to the lowly, the suffering and the miserable.

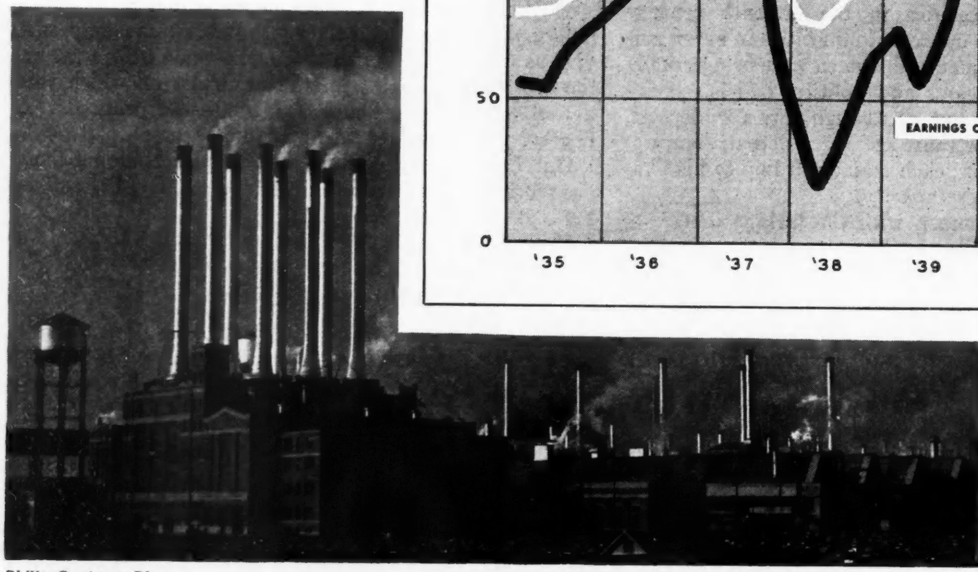
By carrying on the traditions of our forefathers, we will preserve our union and insure the future of those who come after us. This generation of Americans will not have lived in vain.



Ewing-Galloway Photo

This nation's freedom was won the hard way—in war, by men stronger in spirit than in arms. To such men this statue is dedicated on the battleground at Concord, Mass.





Philip Gendreau Photo

Business as "*Unusual*"

BY WARD GATES

THERE is really no such thing as "business as usual," because change and fluctuation are the law of economics and of life. What Government officials mean when they warn us that "business as usual" must go by the board is that various of the existing economic relationships will necessarily be disrupted by the impact of the multi-billion dollar defense program.

That is certainly true, but like most generalized statements it is in considerable degree misleading. We have today a volume of industrial activity 67 per cent greater than the average of the five pre-war years 1935-1939; more than 54 per cent above the average of the two "good years" 1936-1937; and nearly 52 per cent above the average for the "boom year" 1929.

This is not "business as usual" but business as most "unusual." And while numerous existing relationships will be disrupted, you need only take a realistic look at the above percentages to see at once that at least the major part of the armament production is being, and will continue to be, *added* to our civilian economy rather than *subtracted* from it.

The present physical volume of production is represented by the Federal Reserve Board index number 167. If 110 were allocated to civilian production, we would have the volume of 1929—with 57 more for armaments. If 108—the average production of 1939—were allocated to civilian markets, there would be 59 more for armaments.

Of course, this also is a generalized statement—made merely to illustrate a point which has received too little notice. The above allocations are theoretical and hypothetical. It could not work out just that way. Nevertheless the overwhelming bulk of the armaments will be produced in plants, or by machines, which did not exist before. While there will be some diversion of labor from

civilian occupations, its total will be considerably exceeded by the total which is drawn from the ranks of the unemployed, from young people who never worked before, from women led to take lighter types of industrial work by attractive rates of pay, and even to some extent from elderly skilled workers previously retired.

In the case of materials, defense will, of course, have first call—and it is here that the biggest squeeze comes. Despite record high production—and unprecedented imports of various types of industrial raw materials—it is here that something must be subtracted from the civilian economy. In the case of a fairly long list of items—aluminum, nickel, zinc, copper and alloy steels being notable examples—there simply is not enough to serve both defense and civilian needs.

As a consumer, these shortages will not seriously affect you for a very considerable time to come because they will center very largely in things which last a long time and with which you are already well equipped, especially after the heavy buying over the past year or so—things such as the automobile, radio, vacuum cleaner, refrigerator, cooking stove, heating furnace, toaster, washing machine, your wife's costume jewelry, the household tools, lawn mower and so on.

As an investor, however, you will have to make prudent allowance for these changes in the materials supply position, since in numerous instances they constitute the key factor affecting prospective volume and earning power under war-time priorities and taxes. But here, too, there is at least some silver lining to the cloud. In the case of enterprises large enough to have securities listed on national exchanges, a large percentage of those equipped to fashion products out of metals will have a substantial off-set to curtailed civilian production in the form of increasing defense orders or sub-contracts.

Generally speaking, unit profit margins on such defense work will be less than on civilian goods, but in some instances—if volume is large enough—total profits, despite higher taxes, will at least be larger than the average of the pre-war years 1935-1939. Adjustment of portfolios to the realities of a changing war economy—as discussed in detail in the article by A. T. Miller beginning on page 660 requires, of course, careful study of individual situations. Certain marginal manufacturers of consumers' goods, for example—companies which had been making little, if any, profit on their normal business—will have increased earning power through the shift to defense work. Again, your decision to dispose of or continue holding the stock of any given "priority casualty" situation must take its prevailing price into account. The fact that one stock has had a substantial net advance since the war began, while another has had a wide decline, does not necessarily imply that these divergent trends will continue. The former may possibly have discounted a favorable earnings outlook for some time to come. The latter may possibly have discounted the worst.

In very general terms, the problem you have to deal with as a stockholder, or as one with idle cash awaiting investment, is no different from what it always is. That is, the primary consideration applying to common stocks is earning power—present or prospective, but mainly prospective—and the price thereof. We will leave the question of price to Mr. Miller. In analyzing the varied earnings prospects of the more important industries in this article, the most vital single question is the prospective volume of gross business and the capacity to handle it—for obviously it is only in terms of expanded volume that one can hope to find either partial or complete offset to the higher taxes which will be common to all types of business and to lower unit profit margins which will characterize many.

It is neither possible, nor necessary, to consider next year's tax changes in projecting the relative earnings prospects of the different industries. Provided the general principles of the present corporate taxes are continued by Congress—taxes on the amount of dollars earned—there would be no change in present *relative* earnings positions.

But you must bear in mind that the situation would be radically different should Congress—after steadfastly refusing to do so in the three tax bills of 1940 and 1941—swing around to the Treasury's idea of taxing not earning power *per se* but earning power in its ratio to invested capital. In that event all enterprises—defense or non-defense—now earning a relative high rate of return upon their invested capital would be adversely affected; and conversely enterprises with a low ratio of earnings to capital investment would be relatively favored. Such a radical change would precipitate an extensive reshuffling of equity values and would require prompt attention by investors, but naturally it cannot now be anticipated.

As it now shapes up the industries with the best earnings outlook fall into two broad classifications: (1) those with a favorable priority status and with potentiality of large expansion in deliveries; (2) those which are unaffected, or but slightly affected, by priorities and which are in a position to benefit largely from increased consumer spending. The relative situation of all others will range from fair to poor.

Industries in the first group include shipbuilding, aircraft, railroad equipment, machine tools, the railroads

Industrial Earnings Potentials

Favorable:

Aircraft, Shipbuilding, Railroad Equipment, Machinery and Machine Tools, Farm Equipment.

Fair:

Motion Pictures, Textiles, Merchandising, Steel, Paper, Chemicals, Non-Ferrous Metals, Coal, Oil, Metal Fabricating, Electrical Equipments, Air Transport, Shipping, Glass Containers, Selected Motor Accessories, Railroads.

Least Promising:

Utilities, Building, Tobaccos, Office Equipment, Foods, Automobiles.

and farm equipment. Industries in the second group include textiles and apparel, motion pictures, beverages, and merchandising concerns not importantly dependent upon sales of durable goods.

In most cases the percentage earnings gains among the first group should substantially exceed those in the second, due to more dynamic prospect for volume expansion. Moreover, the second group will have to be re-examined at some later date in the event the Government gets around to really heavy "purchasing power taxes" with the objective of stemming price inflation by holding consumer spending down.

Volume in shipbuilding, both naval and merchant, is progressively expanding and 1942 completions, in dollar value, may be more than double those of 1941. The situation in aircraft manufacturing is similar, with 1942 unit volume quite certain to be more than double that of 1941 and with an even larger gain likely in dollar value of deliveries due to higher coming ratio of expensive bombers in future production. Rail equipments have a substantial volume-expansion potential ahead of them, varying considerably from company to company, with probability that the industry's aggregate 1942 deliveries will exceed those of 1941 by more than 50 per cent. For instance, as of mid-September, the American Car & Foundry Company was making deliveries at the rate of approximately $10,742,000 per month—with a backlog of just under $170,000,000—but anticipated an expansion of about 40 per cent in its delivery schedule *over the next twelve months*.

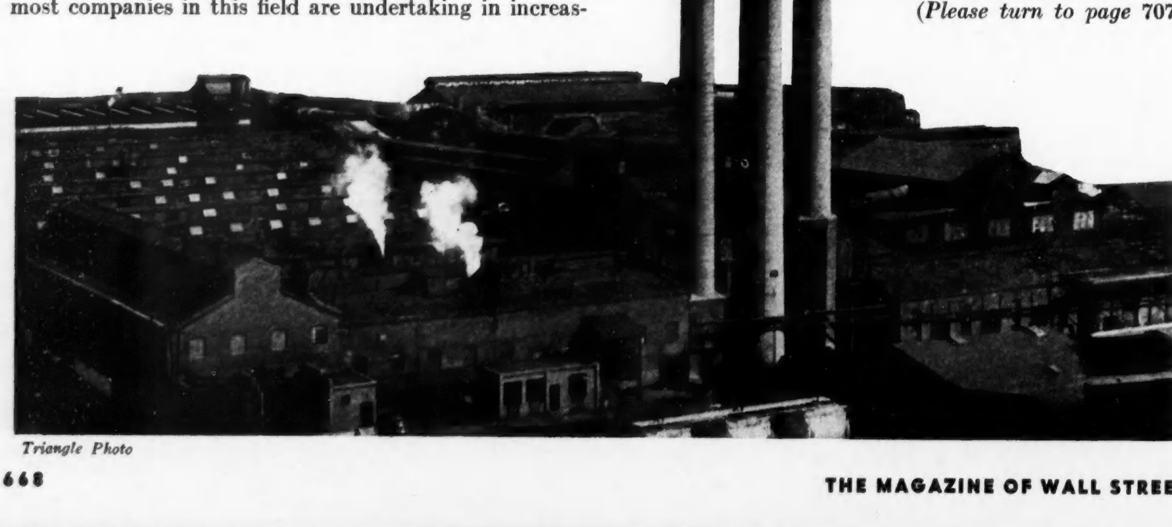
The situation in machine tools is similar to that in railroad equipment, in that all manufacturers are pushing against capacity ceilings, but with a potential—for the industry as a whole—of raising the ceilings substantially. For example, this year's shipments of the Bullard Company are at the rate of approximately $21,000,000, against $11,702,000 for 1940, and the projected schedule for 1942 will make possible shipments at the annual rate of about $48,000,000. It need hardly be said that, with a prospective doubling of volume, next year's taxes would have to be raised very severely to prevent any earnings increase.

Being among the least obliging in release of operating figures, the farm equipment industry's prospect can be appraised only in general—rather than precise statistical—terms. But it is favored by priorities for farm machinery and, of course, for the defense work which most companies in this field are undertaking in increasing degree. And it is likewise favored by a high level of farmer purchasing power, by the prospect of a 1942 farm income substantially higher than this year and by the Government's switch from a scarcity farm products policy to one of increased production. Since farm labor will be increasingly scarce, this will further intensify the demand for agricultural machinery. On the whole, then, the industry has a good chance to show additional earnings gains.

Because there has been much talk—well-founded—of the railroads being barely able to handle the prospective peak traffic this autumn, it is mistakenly assumed by many that they cannot have any substantial potential for further traffic gains. But the nearby squeeze is a seasonal matter. The year's peak car loadings in October probably will average close to 1,000,000 cars a week, a very tight fit for present supply of freight cars. The railroads, like the utilities, have to have surplus equipment for peak seasonal periods. But *average* weekly car loadings for 1941 as a whole will be nowhere near the 1,000,000-car level.

Allowing for increased 1942 deliveries of rolling stock now on order, it is more than possible that next year's average car loadings can exceed those of the current year by as much as 15 per cent. This is small as compared with the volume gains ahead for shipbuilding or aircraft, but its importance is magnified by the high leverage in railroad debt capitalizations. If the coming wage agreement results in not too onerous an increase in labor costs, rail earnings next year could readily exceed those of 1941.

In the whole field of consumer goods and services there is only one question at present: the supply of goods. The national buying power—and more especially that of the lower-income masses—is far above any level ever before known and will rise somewhat further at least into next year. In motion pictures and liquor there is no problem of priority or shortages. There is a tight situation in some types of textiles, due to the combination of Army demand and forward stocking by consumers, but in the aggregate no continuing major shortage is indicated. (*Please turn to page* 707)



Triangle Photo

Charles Phelps Cushing Photo

Inside Appraisal of Vital Issues of Today and Tomorrow

BY E. K. T.

THE start of the third year of the war finds Washington far less unsettled, uncertain, puzzled and divided than ever before. The outlines of our foreign policy are now pretty generally mapped out, understood, and accepted. While many details remain to be filled in and many problems must yet be faced, our course has been set and we are moving rapidly along it.

The United States is now firmly committed to the defeat of the Axis. For the time being this means supplying Axis foes with armament, materials and supplies of all kinds, a gigantic task in itself. Now that supplies are ready to move in large quantities comes the problem of getting them where they are needed, and the Administration is ready to take this next step of assuming responsibility for safe transportation. The final step of sending troops to engage in actual fighting—an expeditionary force—is a matter for events to decide.

Actual declaration of war in the reasonably near future is not anticipated, but that does not mean that the United States will not engage in fighting. Germany might declare war on us if our naval patrols sink a few of her commerce raiders, but Germany doesn't declare wars—she just starts fighting. That is the generally accepted view of how we will get into the war—through a series of naval engagements which will lead to intensified fighting without any declarations, possibly without even the formality of severing diplomatic relations. President Roosevelt has set the stage for this by declaring that the German raiders are pirates and that our Navy is justified in shooting them out of the Atlantic. The President could not get a declaration of war out of Congress now, and by the time enough "incidents" have occurred to make a declaration virtually unanimous, there is no doubt but that the President will have dealt with them in such a way as to make a declaration superfluous.

The attitude of Congress on the foreign policy has undergone a marked change in the past few weeks. Before the mid-summer recess, when nerves were badly strained, Congress almost defeated the draft-extension bill and showed other serious signs of revolt. Now Congress has returned in a far different mood. Part of this is due to the brush between the destroyer Greer and a German submarine and the President's firm but restrained speech following it, part to the extreme statements of some of the President's most violent opponents, but most of it is due to visits to constituents back home. Most Congressmen found that isolationists are not as numerous as they are vocal and that the public in general supports the measures the President has taken so far—largely because of a feeling this policy will keep the United States out of war rather than put it in soon.

Whatever the causes, Congress is now ready to support the foreign policy by a large majority. This was evidenced by the carefully prepared speeches of Senator Capper and Representative Dirksen, mid-West Republicans who voted against most of the President's defense and foreign measures. Both concluded that Congress must uphold the President in order to maintain the prestige and safety of the nation. These reasoned conclusions of conservative politicians fairly represent the present

sentiment in the legislature. Congressmen may feel chagrin over having been maneuvered into this position, but they believe it is too late to turn back. Congress would not vote for war nor sanction clandestine entry without a vote in Congress, but if the present trend continues foreign policy will not be a major issue in the 1942 Congressional election.

Repeal or severe modification of the neutrality law will be proposed shortly. A few months ago this would have been politically impossible, but now Congress will approve without too stiff a fight. This will permit American-flag vessels to enter "danger zones" and belligerent ports, arming of merchant vessels, and travel by U.S. citizens on ships of belligerents, if the President so authorizes. While aiding England's transport problem, such a move will open the way for incidents similar to those which got us into the last war while defending freedom of the seas—a once-abandoned doctrine now being revived.

The second Lend-Lease appropriation bill, for nearly $6 billion, will go through without difficulty beyond demands for safeguards against British use of the supplies for other than war purposes. Direct aid to Communist Russia is still a little hard for most Congressmen to stomach, but the Administration is not forcing a showdown and is easing up to the issue by making R F C and Treasury advances against future deliveries of raw materials. If, as the winter advances, Russia shows she can continue to keep the German army engaged, opposition to more direct aid will diminish.

Further heavy appropriations for our own defense program are in store, and they will be voted. Publicly the Administration has been aiming at combined defense and lend-lease expenditures of $30 billion a year, but actually it is planning on pushing the money out nearly twice that fast if production can possibly be geared to absorb it. This means a terrific drain on our economy, several times as heavy as now. Non-defense industries and consumer standard of living will suffer proportionately.

The Supplies, Priorities and Allocation Board appointed by President Roosevelt to lift to maximum efficiency the national defense program. Reading clockwise from the top: Vice-President Wallace, Chairman; Donald Nelson, Executive Director; Sidney Hillman, Leon Henderson, Secretary of the Navy Knox, Harry Hopkins, William Knudsen, Secretary of War Stimson.

Press Association and Wide World Photos

Taxes, of course, will not begin to cover such an outlay. The new $3,500 million revenue bill will not make much of a dent in the deficit, and neither will the next bill which will be along in a month or two and which, while labeled a "technical" or "administrative" bill, will readjust rates on business of many sorts in a way to yield much heavier taxes. The money must be borrowed, as much as possible from individuals and the rest through the banks.

Avoiding inflation is at last a major concern of the Administration. Reserve requirements of banks have now been raised to the legal limit, and Congress will be asked for new legislation to cut the excess reserves still further. Installment credit curbs will be extended and tightened after the first of the year. Consideration is being given to new restrictions on lending by banks and on the issue of securities for non-defense private and commercial purposes. There is little danger of uncontrolled monetary inflation of the type of post-war Germany and France, but inflation of commodity prices is already well advanced and cannot be turned back now. Even if enacted and put into force shortly, the pending price control bill could not stop the upward climb of the cost of living and of doing business, because it does not control all elements of price and cost and contemplates adjustments in the controlled prices to fit them to the uncontrolled elements. Unpopular as price control is, some sort of legislation will be passed before mid-winter, forced by fears and complaints of consumers. It will hit business profits to some extent, without doing a complete job of preventing price inflation.

Production of armaments will be greatly accelerated under the reorganized OPM and other defense agencies. At last the President appears to have found a successful combination and to have delegated sufficient power to men who can get things done. The bottleneck of his own desk has been cleared to a very considerable extent. The Supply Priorities and Allocations Board has the authority and is using it to determine what demands for

materials are most essential and to direct the flow of materials there first. It is making a survey of productive capacity and of the needs of our own defense program, aid to other countries, and civilian industry, which should end argument over whether or not there will be enough of various essential raw materials. The fight between OPM and OPACS has been ended, and within OPM there is now a clear division of authority and responsibility. The priorities system has been speeded up and simplified, and while many requests for materials are being rejected, at least business can know where it stands. Administration of the lend-lease program has been put on a more workable basis, and export control and the anti-Axis commercial program in Latin-America have been coordinated under the Economic Defense Board.

Defense Production in High Gear

Defense production has been disappointingly small, but many of the difficulties have now been solved. Army purchasing methods have been revolutionized, and at long last small firms are being given contracts so that a greater portion of the productive facilities of the nation can be utilized for the armament effort. The SPAB is deciding conflicts among the demands for material of the various branches of Army, Navy and other defense agencies, as well as among them as a whole and the demands of the lend-lease program and civilian industry. Armament design has been fairly well standardized, contracts are being pushed out faster, and the tooling-up process is well advanced, so that in a few months the output of defense supplies will curve upward rapidly.

The defense labor policy of the Administration is still a matter of great uncertainty. There are recurrent hints that the President has lost patience with labor unions and will crack down on them shortly, but there is little actual evidence of such a reversal. Unions are out to organize all works, win universal recognition, get the closed shop everywhere, and keep wage rates going up ahead of the cost of living. To this end they are resisting the Administration's industry-wide wage stabilization programs on the ground that they undermine union strength in collective bargaining. Strikes for higher wages and the closed shop will increase in number, seriously hampering vital production. The Administration settled nothing by taking over the Kearny shipyards, for the unions think they won a victory on the "maintenance of membership" issue, and they will press this issue elsewhere. Either the Administration must let organized labor have its way, in which case wages and production costs will mount tremendously, or else it must act sternly to put a stop to current union campaigns and risk widespread disturbances and political upheavals.

In the Pacific the Administration is playing a shrewd diplomatic game which currently gives hope of success The economic blockade is hurting Japan badly, and the Administration tells the Japanese it is having difficulty restraining the militaristic elements here who are demanding all-out war against them. Japan is dickering for terms of amity, and the U. S. is playing her along for the time being. Whether Japan will be able to swallow our ultimate demands, including withdrawal from China, is a serious question, but the longer the delay, the tighter Japan is squeezed by the blockade and the more opportunity for getting arms to China and to the Soviet Maritime provinces. The Administration has concluded that if we must fight the Axis we might as well get Japan out of the way first, and that a short naval war would knock Japan out and free U. S. and British ships for Atlantic duties. There are hints that Japan is beginnning to reach the same conclusion.

The program of economic collaboration with Latin-America is bearing fruit, not so much from mutual desire as from dire necessity. Cut off from European supplies and markets and frightened by disclosures of Nazi intrigue, Southern Republics are turning to the United States for trade and are paying our price of hemisphere defense. The U. S. is now obtaining potential cooperation in the blockade of Germany and in unified shipping services. Foreign trade is now almost completely under the control of the Government, and has become a potent economic weapon.

Washington is pursuing a policy of watchful waiting as regards the Eastern side of the Atlantic Ocean, but will not let Germany get the jump on it. The new air ferry route to Africa gives an opportunity to build bases and maintain patrols in that area, and, through the British, to get supplies to the Free French without openly breaking with Vichy. Spain and (*Please turn to page* 711)

Charles Phelps Cushing Photo.

Wide World Photo.

The new U.S.S. Carolina, 35,000-ton warship, firing its 16-inch guns.

Changing World Balance of Power

BY V. L. HOROTH

Not without purpose did President Roosevelt quote the following grim words of Abraham Lincoln at the first press conference since his return to Washington from a meeting at sea with Prime Minister Churchill.

"I have no word of encouragement to give. The military situation is far from bright and the country knows it as well as I do. The fact is that the people have not yet made up their minds that we are at war. They have not buckled down to the determination to fight this war through. . . . They have no idea that the war is to be carried on and put through by hard, tough fighting, that it will hurt somebody and that no headway is going to be made, while this delusion lasts."

When Lincoln's words were spoken, the second year of the bloody conflict among the States was coming to an end. Grant's Mississippi campaign promised to isolate the Confederacy from the West, and for the first time the North dared to hope that the end of the rebellion was in sight. But President Lincoln had reason for holding back. It took almost a year before victory could be expected with any measure of confidence, and during that year there were many reverses and disappointments.

No more fitting words could have been chosen to portray the situation in which this country and the Allies find themselves at present. For the first time in two years they too dare to hope that the end of the struggle against the Axis Powers may be in sight. But to imagine that the balance of power has swung their way for good and that it is necessary only to sit back and await the collapse of Hitler's Germany would be easy optimism,

and foolish. Certainly before the Nazis give in, they are likely to stage a formidable attack with the object of strangling the British Empire in the Near East. Even though their chances for success are far fewer than they were last April, for the next six months and perhaps even for a year there are likely to be more headlines announcing German victories and more suffering by those who stand in the path of the German military machine.

The Reasons for Hope

But what are the reasons for the belief that the balance of power has swung to the Allied side and that the war will end with the ultimate victory of the Allies, a belief that half a year ago only a few dared to express? As late as last May, when the peace terms of the Axis Powers were broached in Japan, many were ready for appeasement, hoping that the post-war reconstruction and trade problem would soften the harshness of these terms. Yet today, hope of an Allied victory seems to have permeated the conquered countries of Europe and to have created an uneasiness in Germany itself.

Strangely enough, hope of an ultimate Allied victory does not seem to rest on the military successes of the Allies—these being of a negative nature—but rather on the failure of the Nazis to carry out their plans to force the British Empire to her knees before the mass output of military material in America could be of any consequence.

The first failure of the Nazis to follow up their victory in France dates back to September, 1940, and was, of course, the inability to knock out the R A F and to carry out the invasion of the British Isles. The Yugoslav rebellion was probably responsible for Turkey not falling into line, and with the Iraq revolution going awry, the Nazi plans to reach the Suez Canal before mid-summer failed. The third and the most crucial part of the German program for this year perhaps cannot be deemed a failure as yet. However, it is already becoming clear that the Germans hoped to relieve themselves at much earlier date of the resistance of the Russian Army in their march toward the Near Eastern oil fields.

The entrance of the Soviet Union into the war on the Allied side, when only a few months before that she was believed ready to join the Axis Powers, was the greatest single factor that changed the balance of power of the belligerents. The British, almost hopelessly short of men, found themselves unexpectedly allied with an army which in its size, equipment and training was a formidable match for the Nazi war machine.

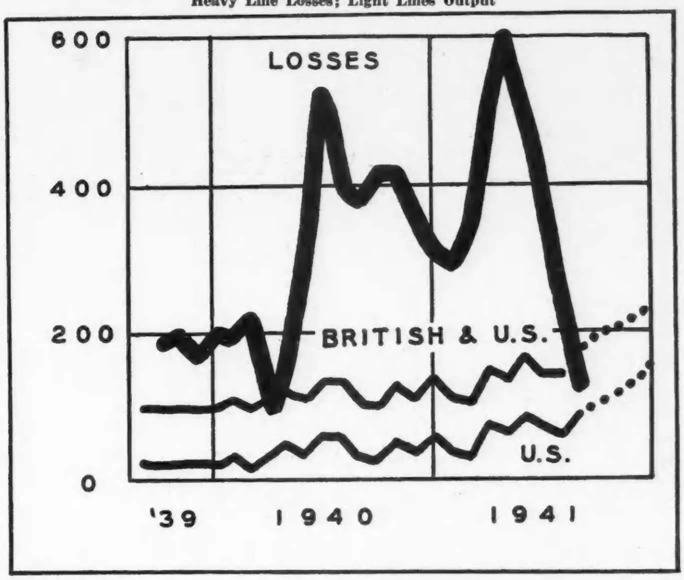
In its staying power and its capacity for manoeuvre and guerilla warfare, the Red Army has exceeded all expectations. It has exploded the myth of German invincibility and revealed weaknesses in blitz-krieg tactics. But it has done more than that. Its resistance has consumed German reserves of both men and war materials, and in that way it has probably contributed to the shortening of the war. The drain on German oil supplies must have been heavy, and it is a very important question how long operations can be continued on the present scale. And the Germans are not even half way to the oil fields of the Caucasus, for which they are aiming.

Apart from revealing flaws in the Nazi military machine, the attack on the Soviet Union has deprived Hitler's armies of their revolutionary elan. Conceived as an anti-communist crusade, the Russian campaign was intended to split public opinion in Western Europe and the United States, and at the same time to rally the Continent of Europe under the Nazi flag. It has failed in both respects. In fact, many sympathizers who were inclined to regard fascism as a revolutionary movement, the "wave of the future," were disillusioned when it became obvious that the social accomplishments of the Nazi regime were only a by-product of an effort to create an organization for conquest. Moreover, the attack on Russia has shown once more that Hitler's military machine was, so to speak, caught in its own power and could maintain itself only by a continuous conquest.

Far less melodramatic, yet important in swinging the balance of power in favor of the Allies, has been the gradual tightening of the British blockade around the Continent of Europe and the intensification of war material output throughout the British Empire and in the United States.

The occupation of Syria and Iran, and the entry of the Soviet Union into the war have stopped two important leaks in the blockade. At the same time, the decision of the United States to patrol the North Atlantic waters has had several important effects: (1) it has shortened the route to Great Britain and made possible more trips per ship, (2) it has improved the system of patrolling and given better protection to convoys in contrast with the situation a year ago. The result of better defensive measures and to some extent also of the preoccupation of the "Luftwaffe" in the East has been a material reduction of shipping losses. As will be seen from the accompanying chart, in August they have apparently dropped to about 135,000 tons from the peak of nearly 600,000 tons in May, 1941. Moreover, the turn-

Shipping Losses and Output of New Ships
(000 Gross Tons)
Heavy Line Losses; Light Lines Output



Expansion of Aviation Production in the United States

	No. of Planes Produced	Total Plant Floor Space (Sq. Ft.)	Total Employees	Total Weekly Payrolls	Horsepower of Engines Produced
Jan., 1939	180	9,454,000	44,300	$1,533,000	
Jan., 1940	220	13,115,000	89,890	2,822,000	
Jan., 1941	1,036	25,456,000	193,890	6,919,000	2,420,000
April, 1941	1,386	32,786,000	237,270	8,761,000	
Aug., 1941	1,854	40,096,000*	281,000*	10,605,000*	4,473,000
Expected Peak Mo. 1942	4,000	53,658,000	505,780	17,702,000	10,000,000

* July, 1941. Source: Aircraft Record and others.

around of ships in British ports is said to have improved some 25 per cent since the beginning of 1941. All this means that the British civilians are getting more foodstuffs, British war industries more raw materials, and that there is a further improvement in the morale of the country.

Another sign that the battle of the Atlantic is slowly turning in favor of the Allies is the increasing bombings by the RAF of German submarine bases and shipbuilding yards. Moreover, the Axis shipping losses have been serious, especially for Italy on whose ships the Lybian Army is dependent for supplies.

The Bridge of Ships

In the meantime, shipbuilding construction throughout the British Empire and the United States has been speeded up. In this country, the shipbuilding program surpasses anything ever known before. In contrast with 440,000 gross tons of shipping commissioned last year, this year's construction is expected to reach 1,000,000 tons, and during the first six months of 1942 about 2,400,000 deadweight tons, or considerably more than we produced in the entire year of 1918. It is estimated that prefabrication of parts and welding have reduced the time required for construction of a merchant ship to about five months, or half the time required during the First World War.

Assuming that the new ship output of the British Empire amounts to about 80,000 tons per month (about one-half of the capacity being used for repairs), it may be expected that the gap between the shipping losses, down to the annual rate of about 2,000,000 tons per year, and the new construction should be well nigh closed.

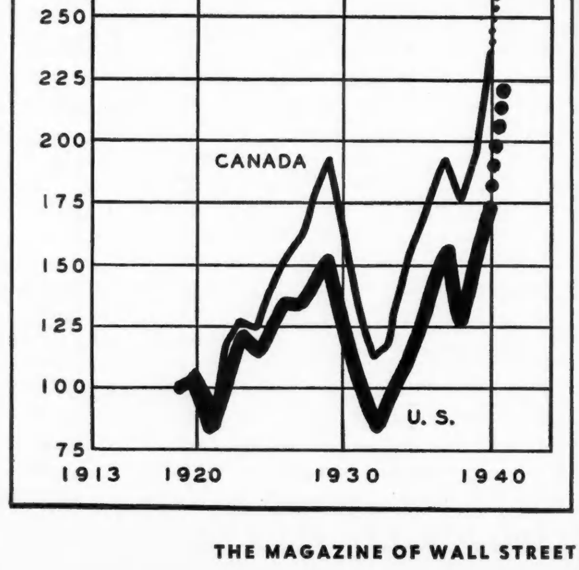
As regards the production of war materials, the indisputable fact is that the Allies and the United States are far better equipped than they were in the months following the collapse of France. In the meantime, Germany has, of course, organized the war material production in the conquered countries. Whether the combined Anglo-American output of war material has approached the combined Continental output is still a question.

The Lease-Lend arrangement between the United States and Great Britain and the Hyde Park Agreement between the United States and Canada facilitated the exchange of defense items without worrying about necessary dollar exchange, as was the case only a few months ago. As will be seen from the chart, the volume of industrial production in this country has been whipped up by about one-third above the 1939 average and is now more than twice as high as it was at the end of the First World War. The Canadian industrial output is about one and one-half times as large as it was in 1919. From the figures of the Aeronautical Chamber of Commerce it would appear that the combined American-British-Russian output of aircraft is considerably more than the production of the Axis Powers. On the other hand, against many accomplishments of the Allied and American industries, there are, in the field of war material manufacture, many deficiencies and failures to live up to the program—which is quite natural in view of the magnitude of the project undertaken.

Because of Great Britain's many far-flung outposts, the available war materials have been distributed but thinly. Likewise the Allied nations, such as China and the Netherlands East Indies, have received far less war material than they would have liked. Yet in spite of this, China's ability to protect her industrial areas and to increase the output of war materials have already manifested itself. Neither can the Netherlands East Indies and such key points as Singapore or Manila be taken without heavy sacrifices for the aggressor. Apparently the reinforcement of Singapore has been an important factor in deterring Japan's march southwards. Of course, the resolute attitude of the United States in applying the economic sanctions and the subsequent strain on Japanese economy has been an important factor.

At any rate Japan's failure to live up to her partnership with the Axis Powers and her present indecision in picking the winner are the best proof that the balance of power is swinging toward the anti-Hitler camp.

INDUSTRIAL PRODUCTION



Sovfoto.

Russian Gunner

A similarly changing attitude can be discerned elsewhere. In South America, the bolder attitude of the Argentine Government toward the German Ambassador is another indication of the growing conviction that the Allies are not going to lose.

In this respect Turkey's position is more delicate. Although she is now in direct contact with the Allies, undoubtedly she wants to be assured that Anglo-American war material will reach her in time and in sufficient quantities should she decide to resist German demands for passage through her territory. The fate of Greece and Yugoslavia is still too fresh in her mind.

Nevertheless, the situation in the Near East has also changed in favor of the Allies. While the Germans have been busy in the Soviet Union, the British have entrenched themselves and apparently built up a considerable army in the Near East. The occupation of Syria was accomplished by the middle of July, and with Iraq brought under control in May, the problems of reinforcing the Near East armies and supplying them with foodstuffs and motor fuel has become simpler. At present the British and the Free French are engaged in strengthening the Near East politically by laying out plans for a confederation of Arab States with a population of about 17,000,000.

Finally, quick action in conjunction with the Russians secured for the Allies the other remaining land-bridge linking the British Empire with the Continent of Europe, Iran. The new Iran railway from the Persian Gulf to the Caspian is likely to become one of the most important arteries by which war materials will be sent to the Soviet Union. With the Red Sea open to supply ships from the United States, the Army of the Nile is unquestionably better equipped by this time. With the Tobruk garrison still astride the Axis supply lines, the outlook for the successful defense of the Suez Canal is certainly much brighter than it was last April when Africa was almost stripped of troops for the campaign in Greece.

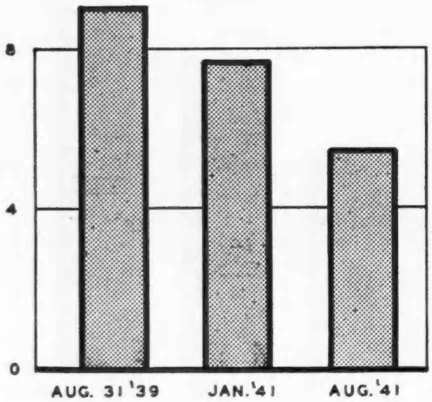
Barring some unforeseen disaster which would lead to the collapse of either Great Britain or the Soviet Union and the subsequent entry of Japan and Vichy into the war on the side of the Nazis, German successes are not likely to swing the outcome of the war for the Axis Powers. The Soviet Union is likely neither to collapse in the sense that France did a year ago, nor to appease Hitler even if Mr. Stalin would wish to do so. The holy war between the Slavs and the Germans has gone too far for that. Neither is the British Empire likely to give up if the Mediterranean and the Near East oil fields are lost. It would simply mean that the struggle would be much longer, more exhausting and devastating for the belligerents. A deadlock would probably set in, as the British would not be in a position to invade the Continent or Hitler to break through the Atlantic blockade for some time.

For this reason the coming fall and winter months are bound to be crucial in the sense that they will have an important bearing upon the duration of the war. Every tank, airplane sent to the Allies now—and particularly to the Russians—is worth ten a year hence. Every Russian factory, every Russian industrial area successfully defended now, means less likelihood of armed intervention by the United States in the future and—strange to say—money saved for the British as well as the American taxpayer.

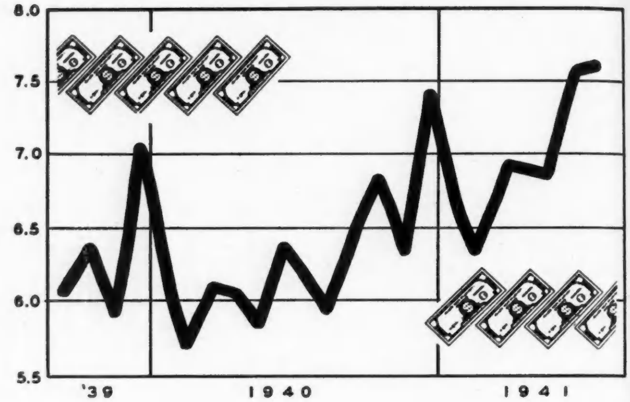
The quickest way to destroy Hitlerism would be to overcome the Nazi military *(Please turn to page* 709)

MAJOR ECONOMIC CHANGES

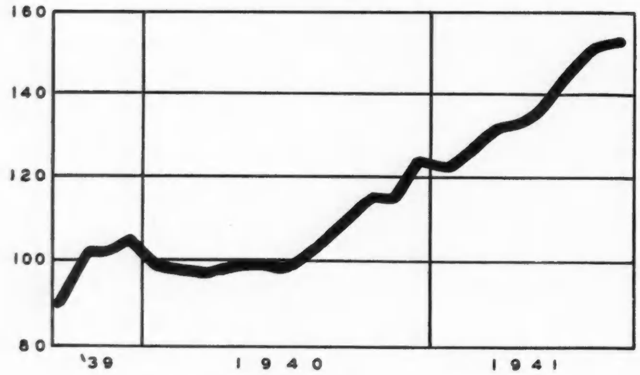
Unemployment
Millions



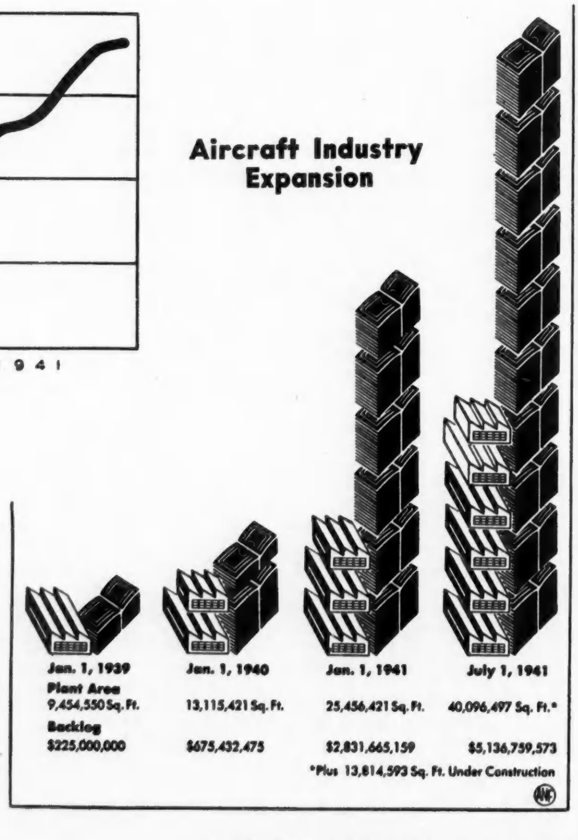
National Income Payments
Billion Dollars



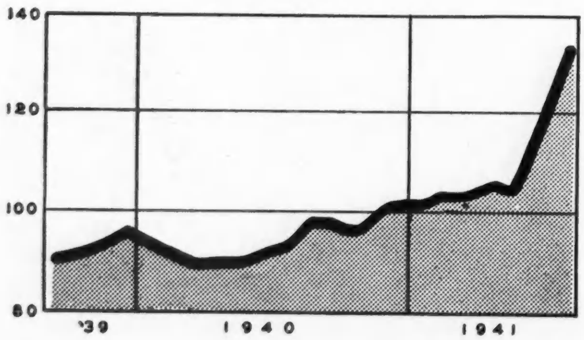
Payrolls
1923-25=100



Aircraft Industry Expansion



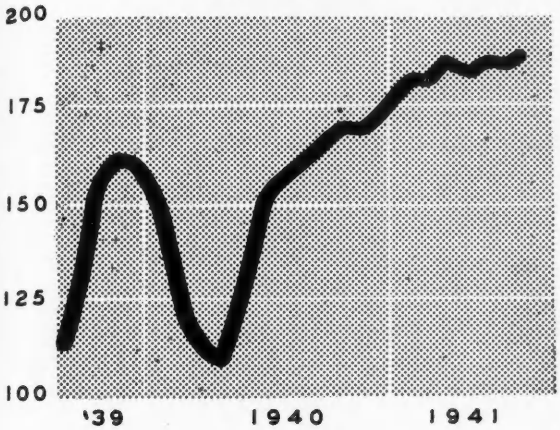
Department Store Sales
1923-25=100



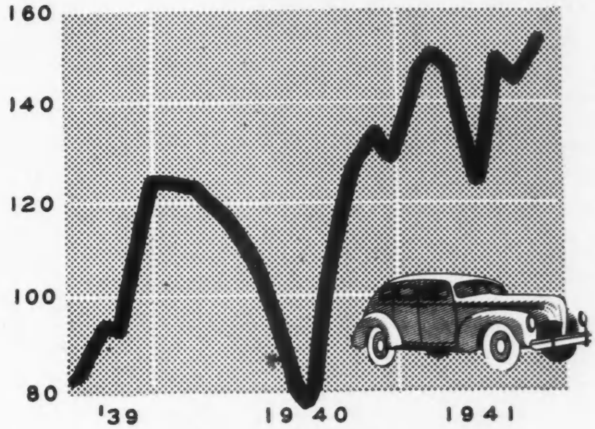
SINCE WORLD WAR II BEGAN

Sub-Indexes of the Federal Reserve Board Index of Industrial Production
1935-39=100

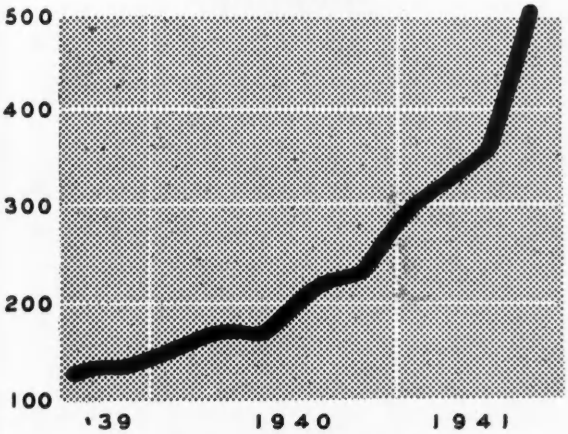
IRON & STEEL



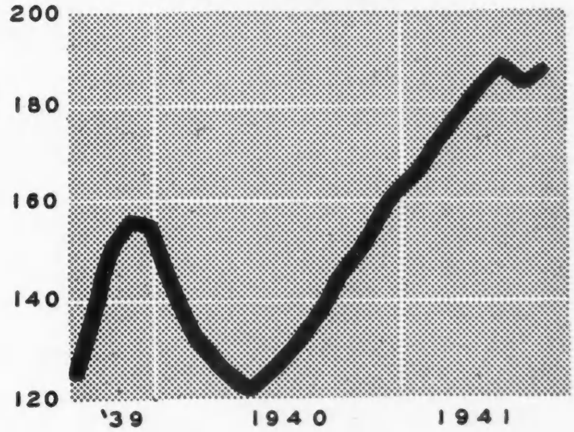
AUTOMOBILE



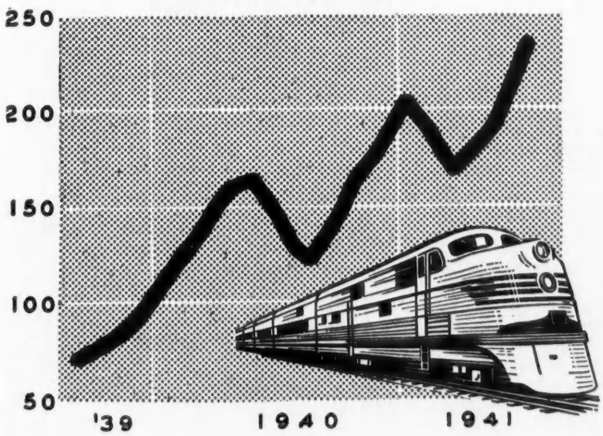
SHIPBUILDING



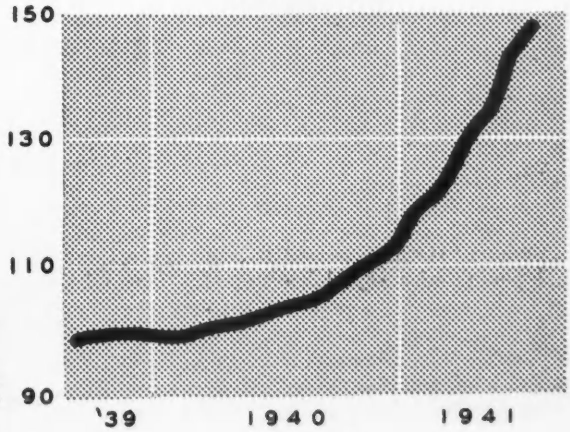
NON-FERROUS METALS



RAILROAD EQUIPMENT



CHEMICALS



5 Portfolios To Meet Your Objectives

BY J. S. WILLIAMS

The greatest mistake which investors are likely to make is their failure to understand precisely what their investment objectives are. For more than twenty years the writer has been identified with the field of investment in various practical capacities, and out of this experience has come the well founded conclusion that the great bulk of capital losses suffered by the individual investor is due to the lack of a definite plan and the willingness to follow it through.

Under the impression that he is an "investor" an individual may actually be the most reckless speculator. Capital appreciation to this type of investor is little more than a convenient euphemism which he uses to describe risky speculation. Usually when the prices of securities are declining this investor becomes vitally concerned with the "protection" of his capital and the maintenance of a dependable income. Usually such a decline catches him with the most volatile type of securities and losses pile up. Let the market reverse its trend, and then his efforts are directed toward recovering his losses by diverting his funds to issues which promise to "go up." In the end these investors are undoubtedly sadder, but just how much wiser they are it is difficult to say.

It is not implied that speculation is not an important phase of investment. In fact the investment does not exist in which there is not some element of risk, however small. The point is that while one investor may well afford to risk a substantial portion of his capital in return for the promise of a commensurate gain, another investor can ill afford to take any greater risk than is ordinarily involved in, say, a good grade bond or preferred stock. The first step in the creation and pursuit of a sound investment program is for each investor to evaluate carefully his own individual objectives, not in terms of catch phrases but based on practical considerations of a strictly personal nature.

All of which may seem rather elementary to many readers and admittedly there would be scant reason to emphasize these points here were it not for the fact that the writer is well aware that investors are prone to lose sight of even the most basic principles governing successful capital management. The present setting, however, is one which literally is studded with temptations for the investor to embark in new and uncharted directions, in the belief that he is "hedging against inflation" or may make some sort of killing in "war babies." Certainly the present is not the time to sit tight and do nothing, but when something *is* done in the way of investment revision it should be done strictly in accord with the essential objectives of the individual.

If the circumstances are such that rising living costs would put a severe strain on investment income then the investor should contemplate a considered revision of

Selected Securities for Capital Protection

Issue	Recent Price	Current Yield %	Call Price	1941 Price Range High Low
Good Grade Bonds				
American I. G. Chem. 5½s, 1949	102	5.39	100	104½-100¾
Columbia Gas & Elec. 5s, 1952	103	4.85	103	106 -103¼
Jones & Laughlin Steel 3¼s, 1961	99	3.28	104	99¾- 95⅞
Long Island R. R. 4s, 1949	96	4.17	NC	99½- 94¾
Medium Grade Bonds				
Canadian Pacific 5s, 1954	87	5.75	104	88½- 69⅝
Continental Gas & Elec. 5s, 1958	98	5.10	102	98¾- 89½
General Steel Castings 5½s, 1949	94	5.85	102½	96⅝- 84⅞
United Drugs 5s, 1953	90	5.56	103	91 - 82⅜
Good and Medium Grade Preferred Stocks				
American Sugar Ref. 7%	97	7.22	NC	98 - 81
Atlas Corp $3	50	6.00	55	50¼- 47⅛
Crane Co. 5%	99	5.05	105	107 - 96¾
Deere & Co. $1.40	29	4.79	NC	30⅛- 27
Federated Dept. Stores $4.25	91	4.67	106½	97½- 90½
Firestone Tire & Rubber 6%	103	5.83	105	105 -101¼
Pure Oil 5%	95	5.26	105	95¼- 83¾
Tidewater Associated Oil 4½%	98	4.59	107	99¾- 95¼

NC—Non-callable.

Preferred and Common Stocks Yielding Better-than-Average Return

Preferred Stocks

Issue	Recent Price	Current Yield	1941 Price Range High Low
American Sugar Ref. 7% pfd.	97	7.22	98 -81
Atchison, Topeka & Santa Fe 5% Pfd	64	7.81	70¼-60¼
Chicago Pneumatic Tool $3 Pfd.	43	6.98	44½-37½
Curtiss-Wright "A" $2.00	28	7.14	29½-24½
B. F. Goodrich 5% Pfd.	72	6.94	72¾-58¼
Jones & Laughlin 5% "A" Pfd.	64	7.81	67 -60¾
Radio Corp. $3.50 Pfd.	55	6.36	62½-48¾
Republic Steel 6% "A" Pfd.	84	7.14	97 -82⅛
U. S. Rubber 8% 1st Pfd.	98	8.16	103½-80¼

Common Stocks

Issue	Recent Price	Current Yield	1941 Price Range High Low
Borden Co. ($1.40)	21	6.66	21⅞-18⅝
Fruehauf Trailer ($1.40)	23	6.09	23¼-20½
General Telephone ($1.60)	22	7.27	24 -17¾
Kroger Grocery ($2.00)	29	6.90	29⅞-24
Lone Star Cement ($3.00)	44	6.82	45½-35
National Cylinder Gas ($0.80)	11	7.27	11 - 8¾
Sutherland Paper ($1.20)	19	6.32	23⅛-18⅛
Union Tank Car ($2.00)	28	7.14	31 -25⅝
Walgreen Co. ($1.60)	20	8.00	22¼-17½

Figures in parenthesis are indicated annual dividend.

his holdings to include the shares of companies identified with industrial fields favored by ample supplies of raw materials, reasonable labor costs, and a flexible price structure for their products. If on the other hand, speculation is a justifiable phase of an investment program, every effort should be made to avoid situations threatened by taxes, priorities, regulation and other restricting factors. Speculators, however, should be warned that adroitness will be the biggest factor in determining their measure of success. The present situation is so dynamic, and so susceptible to overnight changes, that they must be prepared to act, and act quickly.

It is futile to estimate the degree of price inflation which may be experienced during the period of war emergency. It is equally futile for the investor to delude himself by the belief that there exists any sure-fire and complete method of protecting his capital against a period of inflation of uncertain scope and duration. What he can do is build up the income yield on his capital at the expense of low yielding bonds and preferred stocks. Non-dividend paying stocks, lacking the promise of an early return, should be replaced by dividend issues. The choice of replacement issues in every instance should be governed by those basic considerations which would enter into the choice of any investment today. Doubtless many readers have heard extolled the virtues of various commodity stocks, oil issues, mining issues and other similar issues backed by tangible assets, the value of which, theoretically at least, would enhance in a period of inflation and to the substantial benefit of the stockholder. Even assuming that all of this worked out according to schedule, it still would not relieve the investor of the responsibility of gauging the exact peak of inflation if he were to obtain the maximum benefits. Such benefits might be substantially nullified were these so-called inflation hedges to be carried into a later period of deflation.

To the writer, at least, it seems not unlikely that the best type of common stock to hold through a period of inflation would be for the most part the type of investment common stock which might justify favorable consideration at this time, even aside from the inflation angle. This same yardstick might also be used to effective advantage by the investor seeking price appreciation. It is a reasonable assumption that any stock which qualifies as a suitable medium today under the prospective conditions as we can now visualize them, will also enhance in value to whatever extent market conditions may permit.

Another point to be borne in mind in considering the merits of common stocks as desirable mediums in a period of inflation, is the possibility that their theoretical effectiveness may be more or less restricted by such conditions as increased government control, government competition, priorities, taxes, etc. Should these conditions become increasingly onerous, it is to be doubted that any company will escape their ill effects—although as always some companies will fare better than others. Just which companies will be so favored, however, can only be determined with the passage of time. In the meanwhile a considered choice of medium grade preferred stocks and bonds for some portion of capital funds should be productive of results closely on a par with common stocks, particularly for the funds of the income investor.

Secretary of Treasury Morgenthau has urged that Congress enact tax legislation limiting profits to 6 per cent on invested capital, and while it is by no means certain that such a drastic proposal could be passed, it is a virtual certainty that corporate taxes will be upped again in the not distant future. Many companies will find it increasingly difficult to earn the current rate of dividends. In the circumstances, it would be extremely

Preferred and Common Stocks Having Speculative Promise

Issue	Recent Price	Dividend	1941 Price Range High Low
American Car & Fdry. 7% Pfd	69	7.00	79¼-56
American Locomotive 7% Pfd. ($42.75)	88	5.25(a)	95¼-79
American-Hawaiian S. S.	37	3.00(a)	38½-29
Baldwin Locomotive	16	None	19 -12¼
Black & Decker	22	1.40(a)	23⅞-16½
Budd Mfg. 7% Pfd. ($75.25)	71	None	76 -51
California Packing	23	0.75(a)	24¾-16¾
Cudahy Packing	15	None	16½-11½
Cutler-Hammer	19	1.10(a)	20 -15
General Steel Castings 6% Pfd. ($60.00)	76	None	80½-46⅜
Marshall Field	16	0.50(a)	17⅞-13½
Minneapolis Pwr. Imp. $6.50 Pfd. ($44.12½).	75	None	79⅞-56
Nat'l Malleable & Steel Castings	21	1.00(a)	24 -16⅝
National Supply 5½% Pfd. ($7.56¼)	63½	5.50(a)	68 -41
Newport News Ship. & D. D.	25	1.40(a)	27¾-20¾
Penn Dixie Cement A 7% Pfd. ($80.50)	50	1.50	52¾-34½
U. S. Plywood	25	0.90(a)	26 -18⅝
White Motor	16	0.50(a)	17⅝-12½

Prices in parenthesis indicate accumulated unpaid dividends.
(a) Paid or declared this year to date.

Common Stocks for Inflation Protection

Issue	Recent Price	Dividend	1941 Price Range High Low
Abbott Laboratories	55	1.50(a)	55¾-46
Air Reduction	42	1.50(a)	45 -35¾
American Viscose	26	0.50(a)	29⅛-25⅛
Endicott-Johnson	47	3.00	47½-39½
Fidelity Phoenix Fire & Insurance	45	2.20	45¾-34¼
Kress, S. H.	28	1.60	28⅜-22⅛
Mathieson Alkali	30	1.12½(a)	31¼-24⅛
May Department Stores	56	3.00	56¾-45
Murphy, G. C.	73	4.00	74½-61⅞
National Distillers	24	2.00	25½-17
Phillips Petroleum	45	2.00	46 -35¾
Swift & Co.	24	1.50	25 -19¾
Texas Corp	41	2.00	44¾-34½
Texas Gulf Sulphur	38	2.00	38⅞-31½
Union Carbide & Carbon	78	3.00(a)	79⅞-60
Victor Chemical	26	0.95(a)	27¼-20

(a) Paid or declared this year to date.

hazardous for the investor to whom dependable income is vital to have his capital too heavily concentrated in common stocks. Medium grade bonds and preferred stocks, relatively less vulnerable to the ravages of higher taxes, provide the best mediums for alleviating the threat of reduced dividends.

Accompanying this discussion are five lists of securities selected as suitable for a corresponding number of broad investment objectives. These, however, are work lists and as such are not intended to be all-inclusive. It is certain also that they will be subject to later additions and modifications. But the latter is virtually true of any investment made at a time like the present when the sudden and unforeseen introduction of new factors and conditions may suddenly occur at any time.

Portfolios for a Purpose

The list "Selected Securities for Capital Protection" is designed primarily for the investor who for one reason or another requires the balance in his portfolio which is imparted by good grade bonds and preferred stocks though the issues selected are not of the highest grade all of them possess adequate protection in the way of assets and earning power. Aside from the somewhat greater price range which is characteristic of issues of this type, for all practical purposes they should prove fully as satisfactory as issues carrying a higher rating.

The "Preferred and Common Stocks Yielding Better-Than-Average Return" list are issues which offer an assured return. The generous yield would seem to offer adequate compensation for such lack of market stability or speculative promise as these issues manifest. These issues, however, are the type which should be subjected to frequent re-appraisal.

The designation, "Preferred and Common Stocks Having Speculative Promise" tells the basis of selection for this group. Most of the preferred stocks have accumulated arrears in unpaid dividends and their speculative promise stems from the possibility that some action favorable to preferred stockholders may be taken in connection with such dividends. The common stocks have been selected largely on their prospects over the next three to six months and are in no sense to be regarded as other than strictly speculative commitments.

In selecting the issues comprising "Common Stocks for Inflation Protection," emphasis was placed on companies favored by one or more of the following conditions: a large stake in consumer purchasing power; a flexible price structure for their products; ample raw material supplies; freedom from undue restrictions by rationing and priorities; and a strong financial position, implying ability to treat stockholders as generously as earnings permit.

The group "Common Stocks for War and Post-War Periods" is admittedly pretty much of a hand picked list, comprised principally of the largest companies in their respective fields and, by the same token, the country as a whole. Most of them have a large stake in the defense program but at the expense of their peace-time business. All of them are favored by a "growth factor," finances are sufficiently strong to preclude the likelihood of any difficulties in that direction, and it is difficult to envisage any peacetime economy in which these companies would not play a leading role. If any justification at all exists for selection of long term common stock investments, these are the type of issues best qualified.

As a matter of fact, it should be emphasized that none of the issues comprising the five lists has been included with the thought that they can be acquired now and held with a disregard to later developments. All of them should be subjected to frequent check and appraisal in the light of subsequent developments. That is just plain common sense in the economic setup which functions today.

Common Stocks for War and Post-War Periods

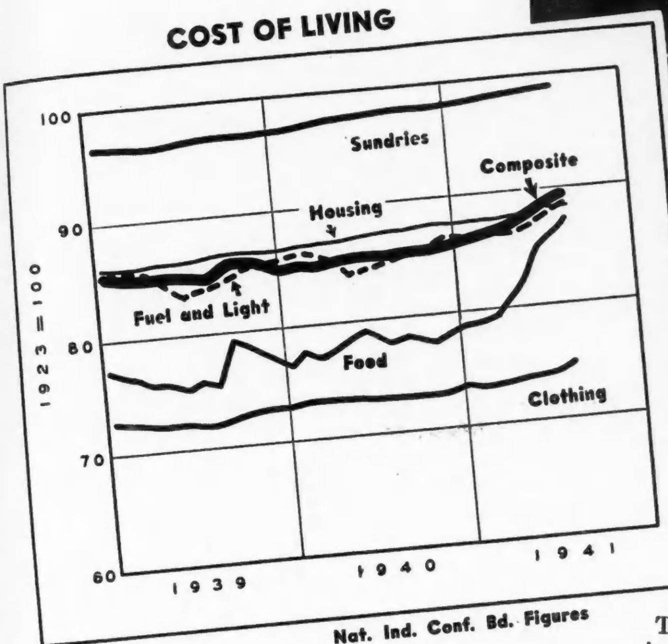
Obviously, it is impossible to visualize the precise nature of the conditions which are likely to confront business and industry in the post-war period. Most of the stocks here listed, however, represent companies which not only have a sizable stake either directly or indirectly in the defense program, but which also, by the nature of their activities, appear, most likely to adjust their operations to peace-time conditions, and on a profit yielding basis.

Issue	Recent Price	Dividend	1941 Price Range High Low
Allied Chemical & Dye	160	6.00	167½-144½
American Cyanamid "B"	41	0.60(a)	42⅜- 31
Bendix Aviation	40	3.00(a)	41⅛- 32⅜
Chrysler Corp	59	4.50(a)	72⅛- 55
Climax Molybdenum	42	1.20	43½- 26⅞
Dow Chemical	124	2.25(a)	141¾-120
Du Pont	154	5.25(a)	164¾-138
Eastman Kodak	145	6.00	145½-120¼
General Motors	40	2.75(a)	48½- 36¾
Inland Steel	77	3.00(a)	90½- 69¼
International Harvester	55	1.60	57 - 43⅛
International Nickel	30	2.00	31⅜- 23⅜
Newmont Mining	29	1.12½	31¾- 22¼
Pan-American Airways	17	None	18¼- 10
Sperry Corp	37	2.00	39¾- 29
United Fruit	74	4.00	75 - 60

(a) Paid or declared this year to date.

Inflation's Impact on YOU

BY
LAURENCE
STERN



Ewing-Galloway Photo

THE great majority of the readers of this article will be individuals classified statistically as well-to-do or middle class—people earning substantially better than average incomes, with some savings tucked away in stocks and bonds, with some reserve cash in the bank. Some of them, having ceased to be earners, are solely dependent upon investment income.

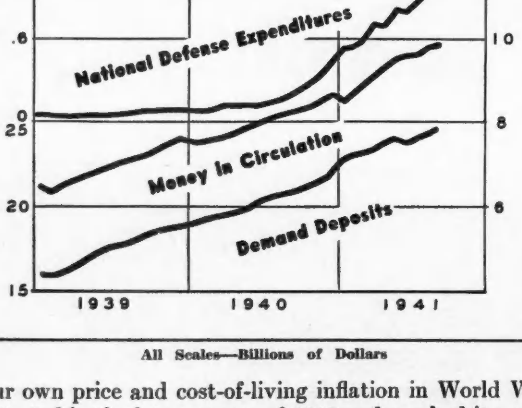
To all of them the present—and prospective—inflation is a serious problem, excepting for the exceedingly small minority who may have increases in earned income large enough to offset both higher income taxes and the maximum probable rise in living costs.

No blanket discussion of the problem can hope to supply all the answers. In the first place, it is not possible to foresee just how much one's living costs will be increased before the inflation forces run their course. In the second place, what the individual investor can or should do in prudent self-protection is necessarily qualified by the circumstances of his own situation.

Theoretically, speculation—and we use the word advisedly—in things of fluctuating money value, such as common stocks or commodities or real estate, can afford not only full protection against inflation but net capital gains in excess of the shrinkage in the dollar's purchasing value.

Practically, the average individual has not one chance in a million of applying this technique successfully to the problem of a protracted inflationary period. Let us not confuse the issue. Speculation in price fluctuation, nearly always intended for relatively short periods, is one thing. Recurrent changes in portfolio holdings—to adapt one's position to changing circumstances and in which one of the factors taken into account must be the varying effects of inflation upon different types of enterprises—is another thing. The single objective of "hedging" capital funds against inflation *for the unpredictable duration* of said inflation is still another thing; and in a fast-changing world is so self-evidently impracticable as to make extended discussion futile.

Bear in mind that major war inflations run a long time.



All Scales—Billions of Dollars

Our own price and cost-of-living inflation in World War I started in the late summer of 1915 and reached its crest in the late spring of 1920—more than four and one-half years. The far more radical German and French inflations were of still greater time duration.

Over that earlier period hindsight shows—and foresight could not have shown—that this was the thing to do: (1) buy equities which appreciated in value more greatly than the purchasing value of the dollars declined; (2) convert them back into cash at the high level of late 1919; (3) sit out the depression of 1920-1921 and then get into equities of growing peace enterprises for the great expansion of 1922-1929.

But over any lengthy period of time no one can foresee how any individual enterprise will be affected by changes in Government tax or priority policies, or by changing competitive factors, or by changing industrial technology. The closest approach to a genuine long term inflation "hedge"—and it is far from a sure answer—is represented by "growth enterprise" securities, such as are discussed in more detail and with a representative portfolio in the special article on page 678.

Unfortunately, inflation is one of the least precise words in the English language. To naive minds it raises the specter of a bankrupt government and unlimited printing of paper money, the German post-war inflation being the classic example. Such an inflation—in which money loses purchasing value with extreme rapidity and in which there is a panic haste to convert cash, as fast as it is received, into almost anything of utilitarian use—is not a reasonable possibility in this country for many years to come, if ever.

The present inflation has nothing to do with the "soundness" of our Government's credit. It is caused by the enormous defense expenditures. Chiefly through rising employment and payrolls, the armament production is increasing the money income of the American public as a whole but without proportionate increase in the total supply of consumer goods available for purchase. Especially from here on, the increase in total national production will consist of defense goods for which the Government is the sole buyer, with no net increase in the *aggregate* of consumer goods, although some individual types of goods for public consumption—those not affected by priorities—will be in increased supply.

What we all would like to know is approximately how much our cost of living will be increased. How much this year? How much next year? How much under the maximum impact of the arms program or of war itself?

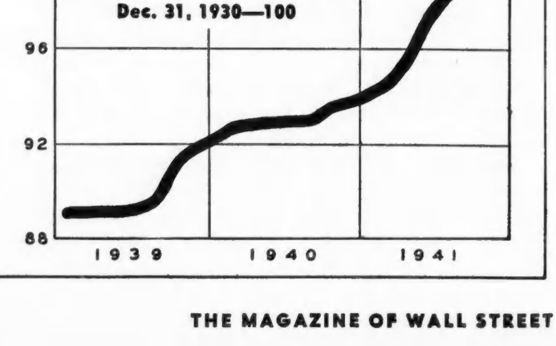
Such questions would be formidable enough, even if one did not have to allow for Government controls and even if the percentage of our total production to be devoted to arms were definitely fixed. There is abundant evidence that business men and consumers for months have been buying supplies far beyond near-term needs—and a strong suspicion that the Army and Navy have done likewise. This would temporarily exaggerate the actual shortages of goods and accelerate the price rise but in due course there would be a reversion to at least somewhat more normal buying habits.

To cite an example, there was the much publicized run on silk stockings some weeks ago, with many stores limiting the quantity sold per customer. As I write this there is before me the advertisement of a large New York department store offering 19,500 pairs of all-silk stockings at a cut price. As another example, the protracted speculation in many farm products has quite evidently been overdone and a period of pause or reaction would scarcely be surprising.

As for Government controls, there is no doubt whatever that they *could* be made effective—the required techniques being well understood. But the question of whether and when they *will* be made effective is befogged by political imponderables.

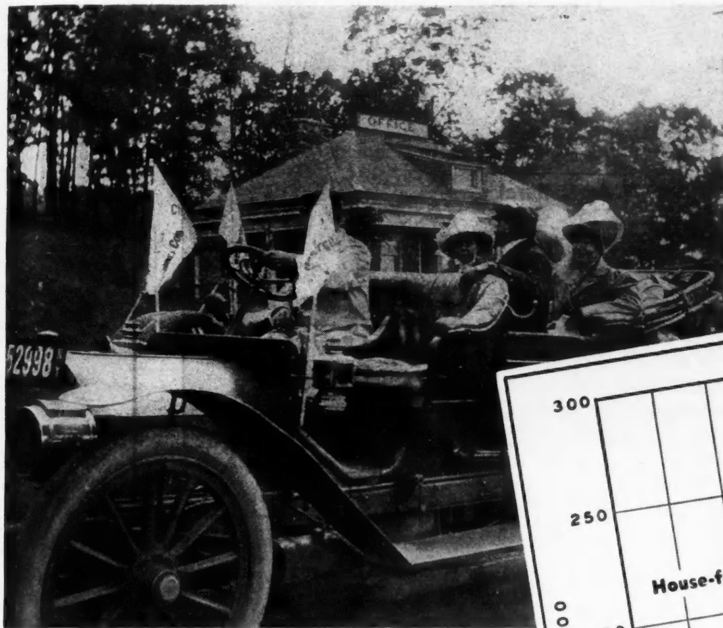
Thus far, some thirty industrial materials or products are under formal or informal price ceilings. For more than six weeks the Department of Labor's daily index of major industrial raw materials has been moving sidewise, slightly under the summer highs. A similar index of import commodities has likewise flattened out. Over the same period domestic farm products experienced additional sharp rise, but show reactionary tendencies in recent days as above cited.

But earlier rises in raw materials and labor costs are being increasingly reflected in both the broad wholesale price index and in the index of prices of manufactured goods; and there is every reason to assume the upward tendency will continue at least for some months to come, regardless of legislative or administrative moves at Washington. As in the first World War, the rise has become rapid only after a long lag. In approximately 19 months of war up to the end of last March the wholesale price index scored a net advance of 6.7 points but since then has advanced an additional 9 points in less than six



months. Similarly, the index of manufactured goods advanced only 5.4 points in the first nineteen months of the war but has added another 7.5 points since the end of last March.

To get the picture at a glance, wholesale prices have advanced approximately 21 per cent since the war started and 40 per cent from the average of 1932, low year of our big depression; but are still about 4.5 per cent under the average of 1929 and 40 per cent under the average of 1920, which was the peak year in prices and cost of living



Philip Gendreau Photo

for generations back to the Civil War.

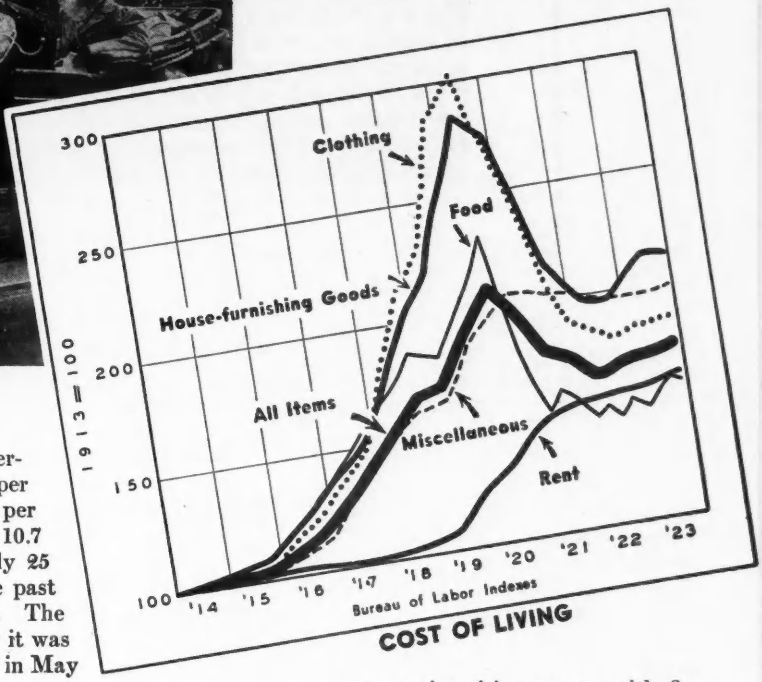
The cost of living (National Industrial Conference Board index) has advanced about 6.4 per cent since the start of the war and nearly 15 per cent from the average of 1932, but it still about 10.7 per cent under the average of 1929 and nearly 25 per cent under the average of 1920. Over the past four months it has risen about 2.8 per cent. The rise in August was 6/10 of 1 per cent. In July it was 5/10 of 1 per cent. In June it was 1.3 per cent; in May 6/10 of 1 per cent.

Looking ahead, and making no allowance for Federal controls, it is to be doubted that there will be much acceleration, if any, in the recent *rate* of increase. On that basis, projecting the trend at an average increase of, say, 7/10 of 1 per cent a month, this index by the first of the year would approximate 92.2 per cent of the average of the base year 1923 and for 1942 would average approximately 95.

The national income next year probably will be close to $100,000,000,000, about one third more than in 1940 but—if our projection of living costs is near the mark, and the writer believes it to be fairly close—this income will buy only one-fifth more value than in 1940. Even so, the equivalent of a $90,000,000,000 income, in terms of 1940 prices, will exceed all former peaks.

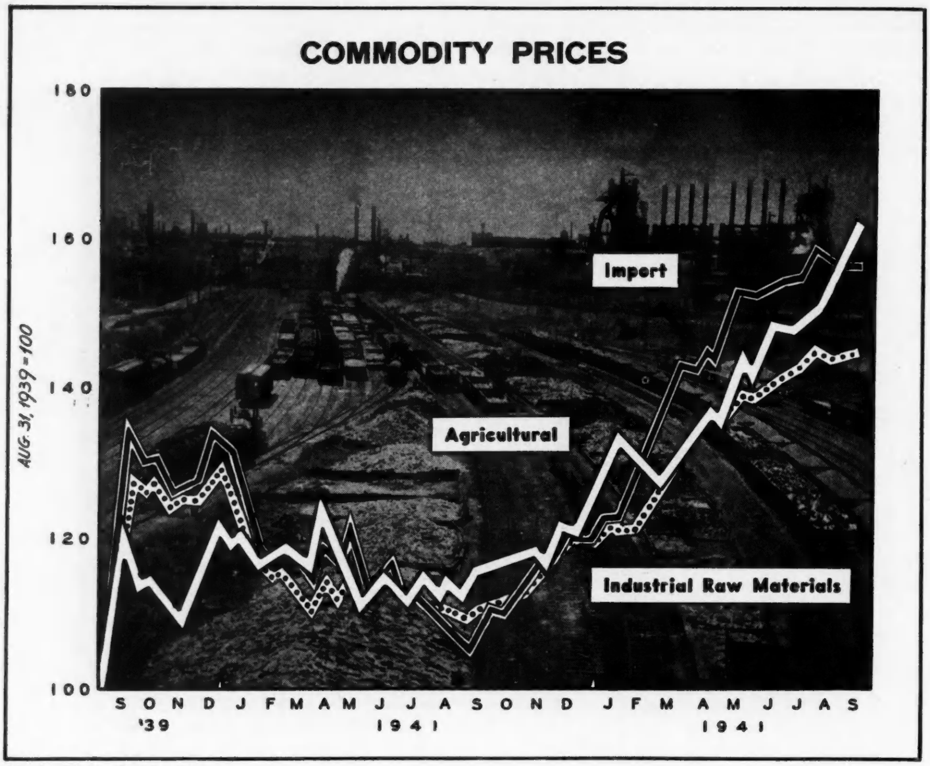
Since politicians customarily do what majority public opinion favors—even if sometimes with a time lag—I believe that Federal inflation controls will become effective before the summer of next year at the latest. It is worth noting that a reliable poll of farmers shows majority sentiment favoring price stabilization, rather than further rise. It is also worth noting that majority public opinion—as well as opinion among the rank and file of labor union members, as duly polled—favors a Federal ban on strikes in defense industries and Federal regulation of unions. While it is very doubtful that this unorganized, inarticulate pressure will induce remedial legislation any time soon, if ever, the straws in the wind certainly suggest probability of increasing direct pressure by the Administration on labor leaders in behalf of reasonable wage policies.

It is obvious, of course, that a price-ceiling law, under which farm products and wages are exempt, would be a wholly inadequate and unworkable approach to the problem of controlling inflation. At



some point rising wages, with finished goods prices fixed, would inevitably squeeze industrial profits intolerably—tending to reduce the incentive to produce and also to reduce Federal tax revenues. The alternative would be to put a brake on wages, whether formally or informally, or to make recurrent, piece meal adjustments upward in the price ceilings.

The simplest, fairest and most effective solution, however, is to enact a tax program or a forced saving plan or some combination of the two which will in fact neutralize the excess public purchasing power on which inflation is feeding. The tax law recently adopted does not come anywhere near such an objective. It is a big revenue raiser but it is highly doubtful that it will result in any 1942 net reduction from the present level of total consumer income. The reason is that the great bulk of the increase in taxes will (*Please turn to page* 708)



Charles Phelps Cushing Photo.

WHAT PRICE COMMODITIES?

BY RICHARD J. MAYER

No major reversal is likely in the long-term commodity price trend. Furthermore, there is scant legitimate basis for reasoning that price control legislation, raw material ceilings and inventory curtailment combined will do much more than soften the rapidity and perhaps limit somewhat the scope of the forthcoming advance in staple values.

These forecasts distinctly bar the outside possibility of a negotiated international peace shortly and, simultaneously, a complete cessation of the American defense program. This dual development would seem to this observer as likely as cashing a bet on a 1,000 to 1 shot in a horse race. However, its occurrence would quite surely upset the commodity price applecart, possibly severely if Uncle Sam would not then manufacture "floors" with the same facility that he has "ceilings."

Three major factors are likely to provide impetus that will carry commodity prices ahead in spite of Federal restraints:

First, deficiency of supplies as measured against an abnormal demand that reflects—sometimes competitively—defense requirements and civilian buying power.

Second, the question of shipping space. This is the particular dilemma of imported commodities, many of which must play second fiddle to articles more essential to the defense program, such as rubber and tin. Latter get preferential bookings.

Third factor is political. Labor and agriculture always figure heavily at the ballot boxes. Trust the average seasoned legislator to bear that in mind. Therefore, by the time that the necessary concessions are made to both, the "bark" of the forthcoming price control legislation is going to be much worse than its actual "bite."

Now let's see how each of these works. Case 1—deficiency of supplies. About 90 per cent of our hide supplies used to go into the production of shoes. Unfortunately timed, we ran into a relatively low period in our cattle cycle at a moment when we must not only outfit a large marching army but also contend with an increased civilian demand. Our domestic cattle slaughter in 1941 is unlikely to materially top 16,000,000 pieces. Our demand for shoe *production* mostly during 1941 is likely to reach 25,000,000 pieces. Imports may fill the gap this year, but with the freight situation such help cannot be counted on in this volume permanently. Furthermore, indications for the year ahead point to a

domestic slaughter of not more than 18,000,000 pieces.

This situation, on the surface, would not seem too bad. However, the strict exactitude of army regulations is creating an artificial squeeze in certain grades of sole leather and, behind cover of that squeeze, is encouraging an unhealthy inventory over-accumulation of shoes. There is little likelihood of any relief from this inventory situation in the near future, as war psychology will continue to dictate a policy of large stock.

Army regulations decree that shoes for its soldiers must be made from domestic steerhides. Even with a 15½-cent price ceiling on these hides, shoe manufacturers have found their labor costs higher and have raised their asking prices from the patriotically low levels that one or two manufacturers first accepted Army orders at. Right now, good steerhides from South America that normally found their way to European markets are going begging at prices anywhere from 10% to 50% cheaper, landed duty paid here, than domestic grades. What's the rub, outside of freight difficulties? Most of these hides have tick marks, insect bites that have a pock appearance. When turned into sole leather, it will not present the smooth surface that the average American is accustomed to see and that is obliterated once the person has walked two blocks from the shoe store. Therefore, since the civilian buyer *won't* be educated into using shoes made of these hides and since the Army *can't*, these go a'begging, while competition is keener for brogans made of domestic hides. P. S.—Tests reveal ticky hides wear 15% better than domestic. The German army uses them.

The shoe jobber sees the Army paying a bit more for its requirements, albeit reluctantly. He also finds difficulty in getting delivery on his old contracts, because of priority of army orders. If he is a good business man, he is likely to pass on word of this situation to his retail store clients. The latter have had a bit more inquiry lately, possibly even with a 5c to 10c per pair price advance. That's hardly surprising in view of increased general purchasing power and the fact that priorities on certain items, such as automobiles for example, may force the spending spree into a few channels. The retailer getting perhaps a 5% increase in sales, orders 10% more in anticipation of further gains and with the assurance of delays in deliveries anyway. On the strength of this, the jobber raises his order perhaps 15% to the shoe manufacturer. The latter must then try to stock up more heavily on leather. It's a vicious cycle, but the proof of the pudding is that while shoe *production* is up nearly 25% lately, actual shoe *sales* are up less than 15%. This will be a real headache later on.

But hides aren't the only supply and demand problem by a long shot. Let's take butter. Here is a farm commodity, which brings it under the favored son classification as regards parities in any event. If we are to ultimately get ceilings on butter, the farm top at 110% of parity is going to be 39 cents per pound, that is based on *present* parities. These ceilings can change, however, as translated in terms of farmer buying power of industrial goods. (More on this at a later stage of this article). Furthermore, occasionally the Government comes into the butter market as a buyer for relief purposes. President Roosevelt has indicated that dairy products will form a great part of our lease-lend aid to Britain, forecasting an additional buyer.

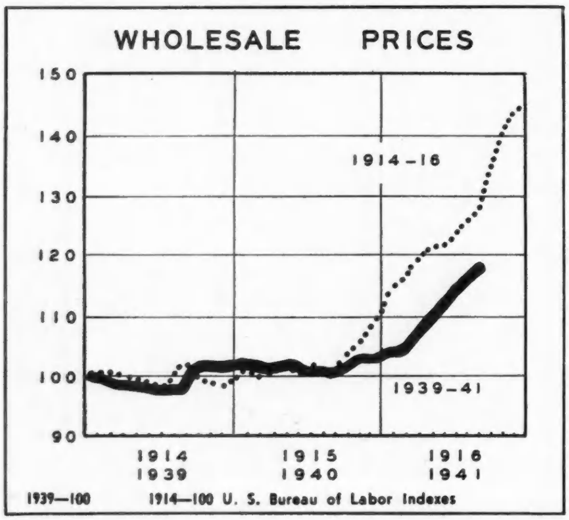
All these things normally would be calculated to spur butter output. However, there is every indication that the movement of butter supplies into storage between now and next February is likely to be less than that taken out from the "held" stocks. Why can't supplies be stepped up materially? It seems that America used to import lots of foreign cheeses—Swiss from Switzerland; French Roquefort; Italian Bel Paese for three examples. War terminated the flow of such goods and domestic cheese plants sprang up in Ohio, Wisconsin and adjacent states, manufacturing satisfactory substitutes. Cheese

Scrap Iron and Oil—key factors in the war supply situation.

Top photo by Triangle
Bottom photo by Ewing-Galloway

output in this country has doubled in many cases. This has created a competitive drain on creamery supplies with butter. It is going to be a mighty slow process, building up milk cow numbers in this country. And until we do, a sellers' market—broadly speaking—is likely to prevail in butter.

Imported commodities bear the brunt of shipping difficulties. Undoubtedly, there has been some inventory over-accumulation by raw sugar users, possibly to the extent of 300,000 to 400,000 tons this year. However, there is no gainsaying that demand has improved. Furthermore, Britain has been an aggressive buyer of Cuba's sugar destined under its quota for the world markets, particularly at rising prices lately. There should be no valid reason for extreme tightness in sugar here right away—still that tightness may occur before the year-end unless our own Maritime Commission provides the necessary boats. Cuba, according to best trade estimates, had 841,217 short tons of sugar on hand to send us between September and December of this year. Next January, they begin to grind a new crop. However, sugar can't swim! Assume each boat on the Cuban run could bring up 4,000 tons. It would require 210 trips to transport the amount of sugar down in Cuba up here. Assume each ship made an average of three trips, it would require 70 ships to perform the task. Even now, the cautious Maritime Commission publicly felt certain that they could get a "substantial" part of the 700,000 tons already bought by United States interests, but unshipped. How much is "substantial," and one can hazard a guess as to the severity of the supply and demand strain.



Furthermore, our problem with Cuba and sugar won't end this year. Although new crop indications are slightly larger, Cuba may profitably put much of its 1942 harvested cane into invert molasses for conversion into alcohol and from there into smokeless powder and other war instruments. Therefore, completing a year when they collected $100,000,000 on a 3,000,000-ton crop, the best returns since 1929, Cuba, with its smallest carry-over since the end of the last World War and a double-edged demand threat, is likely to maintain a sellers' market.

Fortunately, within the last few years New York has replaced London as the pepper storehouse of the world or there might be another import problem here. Some 35,000 tons—accumulated at prices that with storage costs since 1936 figure about 50% to 75% over the prevailing market—rest here. This is equivalent to more than two years' domestic consumption of black pepper. Unfortunately, perhaps 27,000 tons of this stock is owned by large interests that are unwilling to sell at a loss. Hence, the stored "free" supply available for grinders is more limited. Furthermore, since pepper is not an essential, importers here get space for perhaps 100 to 150 tons on the infrequent sailings from the Netherlands East Indies. Each recent month has seen arrivals slightly less than withdrawals out of stock, representing consumption. Caraway seed and other spices have doubled and trebled, without Federal intervention, reflecting the play of supply and demand. However, since pepper is traded on an organized Exchange, an OPACS "warning" and stepping up of speculative margins has temporarily at least taken the zip out of that article. Time will tell whether this will prove sufficient. Meanwhile, OPACS might run into some trouble with the State Department if such a "ceiling" rebuff were given the Dutch East Indies before prices rise materially from present levels, which are not too greatly over cost of production.

Import Troubles in Metals

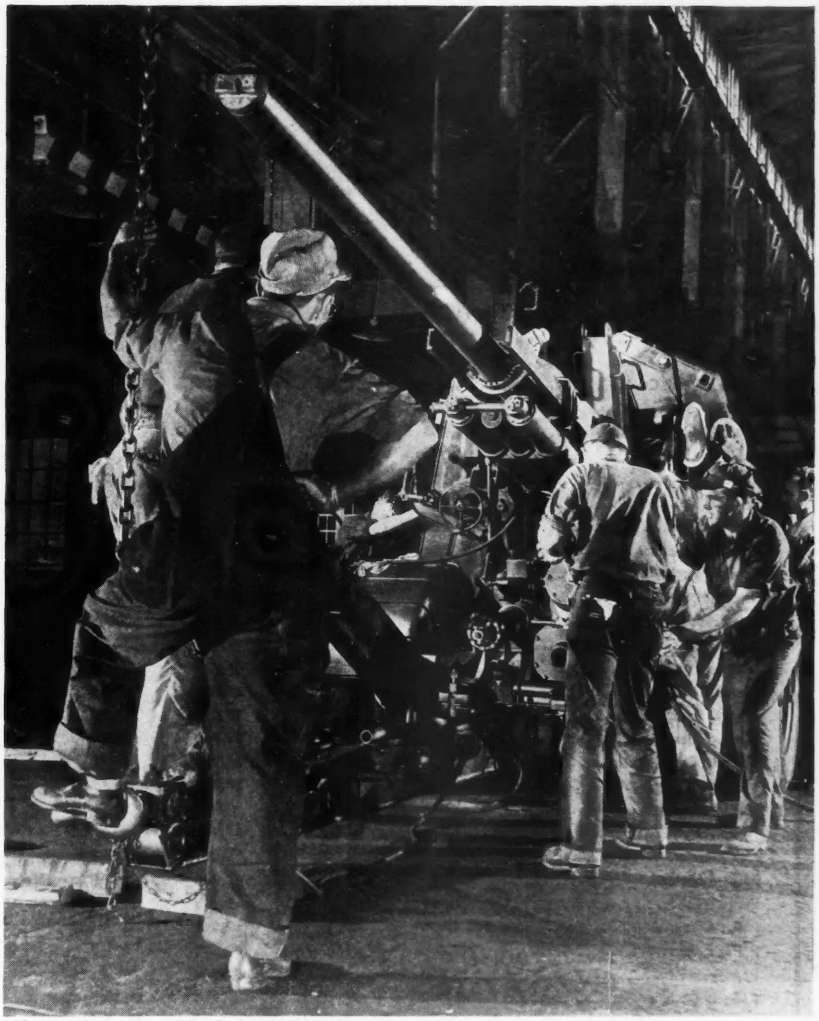
Non-ferrous metals are running into import difficulties, in spite of rationing of supplies to non-defense users. Taking Office of Production Management estimates, we are going to dip into refined copper stocks by 230,000 tons this year; we may find the shortage to be 770,000 tons in 1942. We are trying to stimulate production of some of our own long unused high-cost mines by allowing them 1-cent per pound more for their output than the "Big Four" producers. In spite of this, the gain in production has not been appreciable. Perhaps the answer will be a more substantial increase in the prices paid for Chilean copper by our Metals Reserve Co. Their current buying level, landed New York, is under 11 cents per pound, or more than 1-cent less than is paid for domestic. If production is urgently needed for defense work, then tariff protection arguments, etc. should be swept aside temporarily "for the duration." The freight problem is also a Federal one and should be handled immediately.

At this writing, hearings on the Price Control Bill are in full swing. We have had on the stand a succession of distinguished figures, ranging from experienced, sage Bernard M. Baruch to high current Government officials such as Leon Henderson of OPACS. Inflation is the general fear. How to stop it effectively is the problem of these hearings. Labor and agriculture want to put their shoulders to the wheel to halt inflation—until it affects *them* directly. Witness the coldness of labor to a proposal to place a ceiling on industrial wages. Witness also, the frigid reception a strong Farm Bloc gave to Mr. Baruch's proposal to place ceilings at 100% of 1909-14 parity, instead of 110% to 120% asked for by the agricultural legislators.

There will be price control, yes. But, at least temporarily, not with a full set of (*Please turn to page* 707)

Round-up of Defense Orders

Many Companies Already Booked for Several Years of Capacity Operation



Photograph courtesy Allis Chalmers Mfg. Co.

Up to mid-September, the authorized program for defense expenditures totalled more than $56.5 billion, covering all requirements ranging from battleships to articles of apparel for the military forces. Of this sum, approximately $24.6 billion is to be expended for the Army; nearly $17 billion for the Navy; $7 billion for lease-lend purposes; nearly $2.5 billion for ships other than war craft; $3.2 billion for RFC to expedite the construction of defense plants, equipment and for financial assistance to those engaged in defense work, and slightly more than $2.2 billion for the use of numerous other agencies working for the same end. In addition to these, foreign orders in this country for war materials were close to $3.7 billion at the same date.

The manner in which appropriations, contract authorizations and R F C commitments are distributed indicates the relative importance of the broad groups of materials which enter into our defense efforts. For instance, the aviation industry has received the greatest volume of publicity due, no doubt, to the spectacular nature of the industry's products. We know, of course, that vessels of all sorts are needed to service our own and our allies' needs but what is not generally realized is that the allocations of funds for both airplanes and ships is approximately the same amount, $12 billion each; and that a similar sum has been authorized for ordnance and munitions while miscellaneous items of equipment will require a like amount. The balance of the appropriations and authorizations is equally divided between additions to industrial facilities on the one hand and expanded Government depots, bases, Army posts, etc., on the other hand.

From the foregoing it becomes apparent that there is a vast quantity of available and potential business ahead for most of the industries of this country. And, moreover, using current Federal defense disbursements as a measure, it would seem that industry in general could continue to operate at virtual capacity for a considerable period of time even if no further orders were to be forthcoming. In the period from April, 1940, to the end of August, 1941, only about $9.3 billion has been disbursed and of this sum, $1,172 million was paid out in August alone. In view of the size of the total program, August disbursements are not particularly large nor do they indicate an early completion of the defense program unless they are considered in the light of a comparison with disbursements in previous months. August disbursements were about 10 per cent greater than those of

Unfilled orders of companies active in defense work*

Company	Latest Unfilled Order Backlog (000)	Approx. % Defense Work	1940 Sales (000)	Approx. Curr. Monthly Del. (000)
Allegheny Ludlum Steel	$39,000	80%	$57,703	NF
Allis Chalmers Mfg. Co.	100,636	85%	87,053	$12,500
American Car & Foundry	170,000	64%	35,795	10,742
American Woolen Co.	75,783	40%	75,560	11,100
Aviation Corp.	17,810	100%	5,235	1,345
Baldwin Locomotive Works	226,290	NE	51,103	6,237
Beech Aircraft	82,000	100%	2,345	NF
Bell Aircraft	86,900	100%	5,188	701
Bendix Aviation	300,000	100%	46,725(9)	11,400
Bethlehem Steel	1,367,500	NE	602,203	NF
Boeing Airplane	295,000	100%	19,391	4,500
Borg Warner	36,489	100%	75,163	NF
Bowser & Co.	2,200	65%	3,157	298
Breeze Corp.	12,500	100%	5,335	1,331
Brewster Aeronautical	110,000	100%	10,112	2,652
Bullard Co.	13,500	100%	11,702	1,750
Carrier Corp.	8,930	NE	13,047	NF
Cessna Aircraft Co.	25,000	100%	431	650
Chrysler Corp.	50,000	100%	744,561	85,000
Consolidated Aircraft	684,000	100%	9,350	6,000
Continental Motors	40,000	100%	10,908	1,560
Crosley Corp.	1,500	100%	16,915	2,145
Curtiss-Wright Corp.	1,000,000	100%	138,720	23,712
Eastman Kodak	44,000	100%	130,897	12,254
Fairchild Aviation	24,684	100%	3,779	383
Fairchild Engine & Air	21,000	100%	3,257	NF
Ford Motors	737,000	100%	NF	NF
General Motors	291,000	100%	1,794,937	233,000
Hayes Mfg. Corp.	6,615	100%	1,130	226
Lockheed Aircraft	304,864	100%	44,937	7,300
Martin (Glenn L.) Co.	652,305	100%	30,663	4,600
Mengel Co.	4,610	NE	10,813	1,700
Nash-Kelvinator	45,000	100%	73,490	NF
National Cash Register	24,500	70%	38,777	NF
Newport News S. & D. D. Co.	413,911	100%	58,338	6,600
Northrop Aircraft	65,000	100%	NF	NF
North Amer. Aviation	391,000	100%	36,863	6,000
Otis Elevator	36,013	100%	26,212	NF
Packard Motor	200,000	100%	82,242	NF
Permutit Co.	1,359	100%	3,453	334
Philco Corp.	1,300	100%	52,311	6,000
Pullman, Inc.	117,000	NE	63,098	NF
Remington Rand	11,000	45%	44,031	4,800
Republic Aviation	68,000	100%	924	NF
Ryan Aeronautical	16,000	100%	3,041	NF
Sperry Corp.	275,000	100%	45,903	2,700
Standard Aircraft Prods.	1,676	100%	NF	NF
Studebaker Corp.	100,000*	100%	84,164	NF
United Aircraft Corp.	377,000	100%	126,755	550
Van Norman Mach. Tool	6,000	100%	4,452	NF
Vega Airplane	115,200	100%	1,951	NF
Vultee Aircraft	155,000	100%	1,200	1,400
Westinghouse E. & M. Co.	341,266	50%	239,431	29,260
Willys Overland Motors	40,000	100%	14,577	1,570
Worthington Pump	58,856	90%	27,604	NF

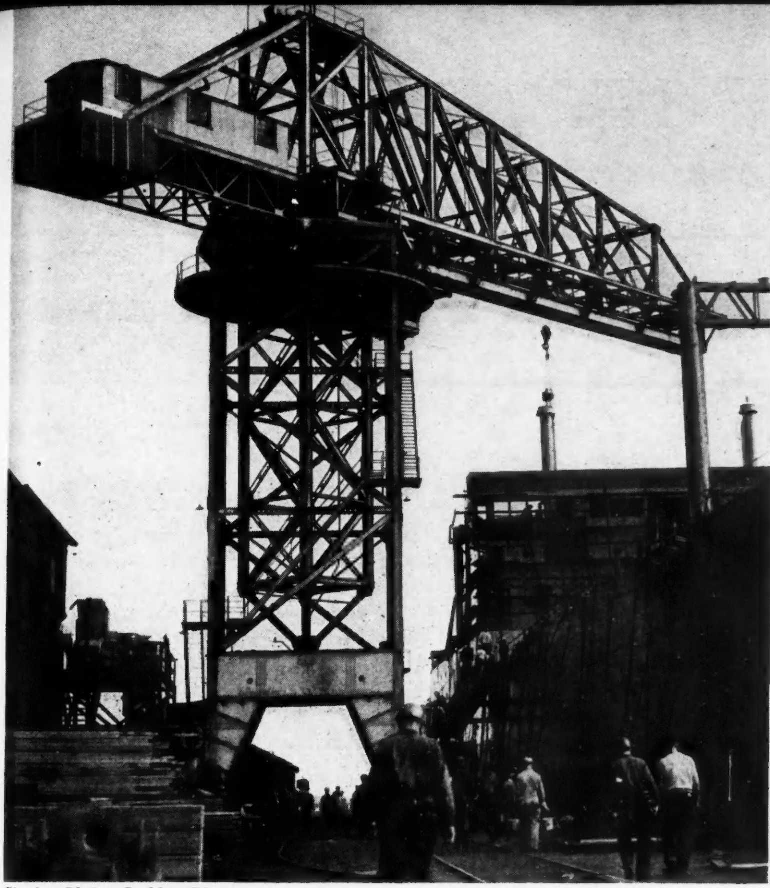
*—In many instances the reporting companies give only their unfilled defense orders and do not report other orders. This is particularly true of the automobile and auto accessory manufacturers. Where less than 100% of defense work is shown, other than defense orders are included in the backlog. Approximate delivery figures and 1940 sales cover all of the activities of each of the reporting companies.

(9)—For nine months only due to changed fiscal year. NE—Cannot segregate defense from other business. NF—Figures not available.

July which in turn were more than 500 per cent greater than those of July, 1940. The program will be continuously accelerated and this gain, in itself, serves to indicate the sharp rate of improvement in the various industries' ability to produce.

Since the aviation industry is most prominent in the news, more data are available on activities than in many other equally important fields. For instance, according to the latest available Government figures, military aircraft production in August totalled 1,854 units. At that rate, the industry is currently producing approximately half of the amount set by the President as the nation's goal. While only half the goal has been achieved in this particular division, even the most recent month's figure is a marked improvement over the 1,476 units produced in the previous month and the 1,036 planes manufactured in the first month of this year. And, what is most important, the August production of fighting ships was more than 300 per cent greater than in July of 1940 when 561 ships were finished. Another such an increase as that between now and a year ago will see the 50,000 planes yearly objective accomplished.

The same ability to obtain relatively large amounts of pertinent information makes the representation of the aviation industry in the accompanying table of unfilled orders large. In the list are represented approximately 23 companies whose unfilled order backlog consist mostly of aviation orders despite the fact that some of them are not normally engaged in making aviation equipment. For these 23 companies alone, as yet unfilled aviation orders total in excess of $5.7 billion. The magnitude of this order backlog can best be visualized by the fact that during the first seven months of the current year, the aviation industry as a whole, delivered $700,000,000 of equipment and if the delivery rate were not to improve, it would take the best part of the next five years to complete orders even now on hand. But the orders on hand are well below the total of the defense program so that new business will continue to accrue to the airplane makers in proportion to their abil-



Charles Phelps Cushing Photo

ity to produce. And some of the manufacturers of aviation equipment—especially motors—are finding an increasing demand for their specialty from other fields. Curtiss-Wright, for instance, is now making motors for use in tanks and undoubtedly Packard and Ford, to name two who are also busy with the making of airplane motors, will be called upon to contribute their share to this newer field of application. A billion dollar tank program is now getting under way.

Ships that sail the waters are almost equally as important as those which navigate the air and unfilled orders for vessels of all sorts constitute a large part of the backlog of industry. Their relative importance can be judged by the fact that such business constitutes the largest part of the unfilled orders of Bethlehem Steel, and without them, the balance of the business is, in great part, on an order release basis. This company's reported unfilled order backlog is $1,367,500,000 for both naval and maritime vessels. Currently Bethlehem has on hand orders for 76 naval vessels and 102 merchant ships and in order to accommodate the work the company has already added 12 new ways to existing facilities that were excelled by no other company in this country and is contemplating additional facilities as quickly as suitable sites for them can be found. Newport News Shipbuilding & Dry Dock, one of the companies which devotes itself solely to the construction of vessels of various types, has orders to fill for the Government amounting to more than $413 million and more to come as quickly as deliveries are made on part of existing orders. American Car & Foundry, not normally considered to be in the shipbuilding industry, has orders for "subchasers" in addition to other materials. This particular company, with a total unfilled order backlog amounting to almost $170 million, is devoting nearly two-thirds of its production facilities to defense work but even at the present high rate of production, has work on hand in sufficient quantities to guarantee about a year and a half's business even should no further defense orders be received.

Then take the case of the steel industry. Here is an instance where the proportion of any company's business which accrues from defense efforts is not immediately apparent despite the fact that it is large. Again, Bethlehem Steel, because of its liberality in the matter of disseminating information, furnishes us with an example of the secondary phase of defense activities. Bethlehem is one of the leading makers of airplane engine cylinder sleeves and other forged parts and at the same time is one of the leading manufacturers of steel alloys which are finding increasing use in the making of airplanes, naval craft and armament. And Bethlehem also makes heavy naval forgings, projectile blanks, forgings for bombs and torpedoes and armor plate. To do this extra work, additional facilities have been provided where necessary and others will be added where the need arises. The policy of the management in respect to expansion is well stated in a recent release of the company which reads "Present production of these (airplane engine) forgings meets all requirements and arrangements are under way to take care of the demands that the contemplated aircraft production will bring."

That it is difficult to assign any definite proportion of a steel company's unfilled order backlog to defense or other work is best illustrated by the case of Allegheny Ludlum Steel Corp. Allegheny Ludlum has on hand unfilled orders approximating $39,000,000. This is better than 5 months of deliveries at the present rate of $7,300,000 monthly. The company itself cannot definitely state what part of its output is destined for defense work but estimates that the proportion is between 70 per cent and 90 per cent. Because of the high quality of the products and their application to defense requirements, it is probable that the highest figure is closest to actual.

The machine tool industry, on the other hand, is almost completely engrossed in defense work. Bullard Company, makers of automatic machinery used mostly on production jobs, has approximately $13,500,000 of actual orders on their books which are as yet unfilled. In addition to this amount the company has pool orders and other commitments for the defense program which will greatly exceed the above amount. While the company estimates that 89.7 per cent of its unfilled orders are for domestic account and 10.3 per cent are foreign orders, it counts its output as (*Please turn to page* 706)

Ten Stocks Favored in a War Economy

Baldwin Locomotive Company

Baldwin Locomotive Co. is probably best known as being one of the largest manufacturers of locomotives in this country but few realize the decreasing importance of these once principal products in the sales of the company. Last year, for instance, the company reported consolidated sales of $51,102,729 of which only $12,106,036 was accounted for by the sale of locomotives and locomotive products. The strong preponderance of non-locomotive sales was probably due to war conditions, but even in more recent normal years, the ratio of other than locomotive sales to sales of railroad prime movers has been better than 2 to 1. Not that the railroad business is declining but the company's efforts to diversify its products is becoming increasingly successful.

Baldwin has a number of subsidiaries or controlled companies of which Midvale Steel is probably the most prominent and active at this time. Midvale Steel is controlled by Baldwin through ownership of approximately 61.45 per cent of the common stock. Midvale Steel has long specialized in the making of armor plate for naval and other use, also guns, gun forgings, projectiles as well as a wide variety of unusual items, including alloy steels, large forgings for turbines and other engines, oil refinery pressure vessels, etc. Almost all of Midvale's individual products are in good demand for defense purposes. Last year, Midvale earned about $16.14 a share and paid dividends of $9 a share on the common stock of which there are only 200,000 shares outstanding. On the basis of 61.45 per cent control by Baldwin, the latter company received more than $1,100,000 in dividends last year and had an equity in earnings amounting to better than $5 a share more. At the date of the annual report, nearly 75 per cent of the work being done by Midvale was for Government account. Other products of Baldwin subsidiaries are water turbines, hydraulic valves, special iron and brass castings, Diesel parts, etc.

The company and its subsidiaries have recently been doing a business of record proportions. Consolidated bookings for the first seven months of this year amounted to approximately $117,937,752 as compared with $28,951,735 in the same months of last year. Consolidated shipments in the same period totaled $43,659,365 as compared with $25,708,589 a year ago and the consolidated backlog of unfilled orders as of July 31 amounted to $226,290,439, or better than five times greater than on the same date of last year. Earnings have also shown satisfactory — although not proportional — increases. For the 12 months ended June 30, 1941, Baldwin reported net profits of $2,486,344 after deducting $5,451,043 for Federal taxes and $1,456,344 as the minority's share of Midvale's earnings. This was equivalent to $2.26 a share of Baldwin's common stock as compared with $1.55 a share for the same period of 1940. Taxes, however, were estimated to be approximately $3,800,000 greater in the most recent period or better than $3 a share on the common stock. The new tax bill will increase the proportionate tax burden but on the other hand, the sharp increase in the company's billings will offset the extra impost sufficiently to permit even better earnings per share of common stock than during the 12-month period just discussed. With Baldwin increasing its production of military materials and locomotive business continuing to gain, it is probable that earnings for the next year will be moderately higher again.

The Bullard Company

Bullard Company makes machine tools. Not just ordinary machine tools but automatic devices that do many things on one machine on the same setting and are thus peculiarly adapted to production methods required for a high output of war materials. The machines themselves, which consist of three basic devices, are tailored to the individual purchaser's needs and thus are capable of a wide degree of application. Naturally, since the automobile industry has been the greatest exponent of mass production methods, it has been Bullard's principal customer until the outset of the war. Since that time, however, the extreme adaptability of Bullard machines to any mechanical production problem has shifted the emphasis of the auto industry on the company's sales. Makers of aviation engines, tanks, machine guns and a host of other products find Bullard products almost ideally suited to their needs with the result that the company's sales have continued to grow apace despite the loss of much direct automobile business.

Since adequate tooling is necessary before production is possible, Bullard was among the first of the companies whose business was substantially increased by defense requirements. But so great has been the volume of demand that the end of periodical sales gains is not as yet in sight even if most industries are beginning to produce defense materials in quantity. For instance, net sales in the first half of this year were $9,221,267, prac-

tically double those of a year ago, and operating profits of $3,012,257 for the period maintained about the same proportion. Receipts from other activities were also double those of a year ago but from that point on, the comparison becomes less favorable. In the years of depression and immediately following them, machine tool companies were far from prosperous. The lack of sizable earnings in recent years gives Bullard a very low earnings base for taxation purposes and, accordingly, new tax rates have been particularly burdensome. Straight income taxes were not a particular difficulty for in the 6 months period under consideration, they were only slightly more than double those of a year ago. But, under the 1940 tax law, the company is liable for $1,052,000 excess profits taxes for the first half of the

Baldwin Locomotive Photo

year and in addition, the management thought it necessary to set aside another $300,000 out of the six months' earnings in order to meet the requirements of the newest tax bill. Taken all in all, taxes and reserves for new taxes cut into operating profits so strongly that net income after all reserves for the six months period was only $950,000 as compared with $1,200,810 for the same period of 1940. The earnings were equivalent to $3.44 a share and $4.35 a share respectively for the 1941 and 1940 periods. However, shipments for the second half year are likely to be substantially better than even those of the first half with the result that the tax difficulty will probably be overcome and earnings will most likely equal those of a year ago if not better them by a moderate margin. As far back as last March, Bullard had $12,000,000 in unfilled orders on its books and by this time, that amount probably has been substantially increased. There are only 276,000 shares of common stock outstanding and all recent expansion has been accomplished without recourse to financing or bank borrowing. The last bank loan was paid off during 1940. In addition, the company's financial position is strong and working capital is apparently ample for the company's needs.

Brewster Aeronautical Corp.

Brewster Aeronautical Corp. is a relative newcomer to the aviation industry but its antecedents trace back to the luxury horse-drawn vehicle business of the Victorian era. Actually, the present company started in the aviation business in 1932 but real progress in the industry dates from April, 1939, when the company acquired the rights to manufacture certain of the military planes once made by Consolidated Aircraft. Since that time, the company's business has been expanding rapidly and now Brewster is making planes of its own design, particularly the new long range dive bomber for the U. S. Navy.

The rate of increase in the company's business can best be illustrated by sales figures of various periods. In 1939, net sales totaled $960,591. By 1940, they reached $10,112,301 for the year and in the first four months of 1941, the management reported that sales in that period had exceeded those for all of 1940 and were still mounting. The company's unfilled order backlog as of July 1 was $110,000,000 or the equivalent of more than 10 years of work at the 1940 rate. The bulk of the unfilled order backlog is said to consist mostly of dive bomber orders.

The increase in earnings has been quite as notable as the gains in sales. Last year, the company earned the equivalent of $0.54 a share of common stock as compared with only $0.02 a share for 1939. In the first four months of this year, Brewster reported earnings of $1.46 a share of common stock. Despite heavy tax requirements, it is probable that Brewster will continue to show increased earnings for the balance of the year, due of course, to the substantial gains in sales. The volume of unfilled orders promises a long period of peak capacity operations for the company.

The company has ample working capital but has heavy contingent liabilities in the form of advances from customers ahead of the completion of work. The contracts under which these advances were made are cancellable and would call for a refund, in cash, of the unused balance. However, in view of present conditions, there is no immediate prospect that the orders will be cancelled or that any of the advanced funds will be returned. Even so, at the close of last year, the total amount of these advances only exceeded net current assets by $1,303,708 and since that time, the company's finances have further improved through the receipts of large payments for materials delivered to customers.

Clark Equipment Company

Prior to the current war, Clark Equipment Company was almost solely concerned with automotive business in

its capacity as a manufacturer of auto truck axles, housings, transmissions and metal spoke wheels. While the company continues to make the same line of products, they are now mostly used in the making of military vehicles, tanks and similar machines. Other products of the company such as high speed metal cutting tools and industrial trucks used to handle materials in factories or

Photo courtesy The Bullard Company

yards, are also in good demand and likewise find increasing use in defense activities. Never having been a gigantic company, the sudden inrush of business has swamped all of the company's production facilities. But additions are in progress although they have apparently not been made until the utmost production capacity of existing facilities had been taxed to their limit.

Earnings for the first half of 1941 were equal to $3.85 a share of common stock as compared with $3.25 a share in the same period of 1940. Earnings failed more clearly to reflect the gains in business mainly because of an increase in taxes which was equal to almost $1.50 a share of common stock. It is probable that earnings in the third quarter made equally as favorable comparison with those of a year ago as did the reported first half results and fourth quarter reports should show a better than average increase in earnings mostly because of the fact that the results of additional production facilities will begin to be noticeable at that time. The company's financial position is satisfactory. At the date of the last published balance sheet, the current asset ratio was nearly 3 to 1 and cash alone was comfortably in excess of then total current liabilities; which consisted mostly of tax reserves and similar items.

Curtiss-Wright Corp.

Little need be said of the position that Curtiss-Wright occupies in the booming aviation industry. The most recent history of the company has been marked by reports of extensive increases in production facilities and products. Even earnings have shown better than average gains in recent months in spite of taxes and other rising costs.

In the first six months of this year, Curtiss-Wright received orders amounting to $286,807,324 as compared with orders totaling $152,225,298 in the same period of 1940. Deliveries in the same period were $142,272,691 as compared with $46,838,891 in the first half of last year. As of June 30, 1941, unfilled orders were reported to be in the vicinity of $861,505,424 but since that time new orders received have exceeded even augmented deliveries and the unfilled order backlog is said now to be moderately in excess of $1 billion. Obviously, even should production capacity continue to expand as rapidly as in more recent months, the company would still have sufficient work on hand for several years to come.

Earnings for the first half of this year were $10,664,338 as compared with $6,235,969 for the same period of a year ago. It is interesting to note that tax reserves in the first half of this year were slightly greater than total net profits for the same period of 1940. Earnings per share for the initial six months of 1941 and 1940 were $1.28 and $0.68 respectively. With deliveries in the last half of the year expected to approximate $25,000,000 or better monthly, it is probable that earnings for the final six months will exceed those of the first half by a fair margin and be substantially greater than those of the previous year. This, in spite of increasing excess profits taxes and normal income levies.

Curtiss-Wright's most famous subsidiary is Wright Aeronautical Corp. of which Curtiss controls 97.21 per cent of the voting power. Wright Aero makes the famous line of Whirlwind and Cyclone aviation motors for which there is an insatiable demand. Despite many additions to plant and other production facilities, the company cannot begin to keep up with demand. Now, tanks are being powered with adapted Wright motors and promises the company another large outlet for its machines. Moreover, constant improvements and uses are being devised.

Lockheed Aircraft Co.

This company has been engaged in the construction of military and commercial aircraft since 1932. In addition, the company owns the controlling interest in Vega Airplane Co. which is principally concerned with the manufacture of two-engined bombers and training planes. Each year of the company's business life—with the exception of 1936—has been marked by a substantial gain in sales. In 1936, however, sales for the year amounted to $2,006,501 and were thus about $90,000 short of reaching the 1935 total. But, since 1936, the gain in sales has

been at a high rate, reaching a total of $44,936,595 last year and $58,005,862 in the first half of 1941. Current shipment rates promise even better gains for the final half of this year as far as sales are concerned and even at the recently augmented rate of production, the company will be actively engaged in reducing its unfilled order backlog for some time to come, even should no new orders be forthcoming. As of June 30, last, the company reported its as yet unfilled orders to be $382,547,985 and since that time a substantial amount of additional work has accrued or is in prospect.

With sales in the first half of this year being better than 200 per cent greater than a year ago it is not surprising that earnings for the initial period of this year were greater than for the whole of 1940. However, the $3.83 a share reported for the most recent 6 months period was not 200 per cent higher than a year ago although the increase was roughly 50 per cent. What is most impressive in the company's earnings record is that prior to 1939, earnings never exceeded $1 a share although it must also be said that only in 1934 was a small deficit incurred. Taxes—which took about $3,666,000 from the first 6 months' earnings—will be increasingly heavy during the remainder of the year but, nevertheless, it is probable that full year earnings will be in excess of $5 a share and thus establish a new high record.

Vega, the controlled company, has not been highly profitable as yet but its prospects are also satisfactory. Lockheed's proportionate share of Vega's half year earnings, which amounted to about $76,157, is not included in the Lockheed earnings figures for the current year. When development and other costs have been written off, Vega should be a substantial contributor to Lockheed's income.

Marshall Field & Co.

Marshall Field, as a merchandiser, manufacturer and realty owner, benefits both directly and indirectly from defense activities while pursuing its normal lines of activity. The company is best known for its retail stores in Chicago and Seattle and for its ownership of Chicago's great Merchandise Mart, a huge building devoted to showrooms and sales offices for the trade in the middle-west. The company is also a large manufacturer of textiles of many kinds and maintains factories in North Carolina, Virginia and Zion, Ill.

Since Chicago is the metropolis of the middle-west and the middle-west is perhaps the most active district in defense work, it is understandable that the company's retail sales are running at high levels and that rental space in the company's Merchandise Mart is becoming increasingly scarce. Manufacturing facilities became unprofitable during the years of the depression and were pared down to a point where only the most efficient mills were retained. These same mills are now actively engaged in producing textiles for defense needs and thus, the company has a sizable quantity of direct defense contracts as well.

Since the greatest volume of the company's income accrues from its retail activities it is subject, in large measure, to the seasonal influences characteristic of retail trade. Nevertheless, other than retail business income acts as a stabilizer on income during the normally poorer retail months with the result that the company is able to report profitable operations between seasons as well as during the peak seasons of the business. For instance, in the first half of the present year, earnings amounted to $0.62 a share of common stock after making all provisions for taxes, as compared with $0.58 in the same period of 1940. On a 12 months basis, earnings for the period to June 30 were equal to $2.51 a share or 31 cents a share higher than in the same period of a year ago. The 12 months figure to June 30 usually points out what might be expected for the full calendar year but in this instance it is probable that Christmas sales will reach new record high levels and thus earnings for 1941 can be expected to approximate $3 a share of common stock on the present capitalization.

There are some indications that a large block of Marshall Field stock—said to be approximately 400,000 shares—will soon be offered on the market. While it is not indicated that this offering will constitute new financing, the shares will be sold through an underwriting group and not distributed through sales in the open market.

Photo courtesy Curtiss-Wright

Added working capital does not seem necessary at this time so it is possible that the offering will be from holdings already outstanding and would not have a diluting effect upon the stockholders' equity.

National Acme Company

This company manufactures a line of machine tools that find application in almost every metal working industry. Specifically, they consist of various types of automatic, multiple spindle tool machines, machine operated taps and dies for the cutting of threads, centrifuges or machines to separate articles of different specific gravities by centrifugal force and also special machinery made to customer specifications for many uses. The company is a strong exponent of the use of sub-contractors to increase shipments. It is estimated that these sub-contractors are now delivering approximately 60 complete machines monthly which would raise National Acme's total monthly shipments to about 165 units. Although this number would be approximately three times greater than the record peace time achievement the quantity is as yet insufficient to care for the demand and the company is therefore adding additional production facilities which will cost in the vicinity of $500,000.

In post-depression years, the company has had an excellent earnings record although the rush of business during the past months has increased earnings to record proportions. The increase in net profit is not great from a dollar standpoint but due to the fact that 500,000 shares of common stock constitutes the company's sole capital obligation, earnings per share tend to mount rapidly. In the first half of 1941, National Acme earned $1,572,467 as compared with $1,237,050 in the same period of 1940. Earnings per share of common stock in the same period were however, $3.14 for the most recent period as compared with $2.47 in the same months of a year ago and constituted a new high record for the period. With shipments continuing to increase in volume it is likely that second half results will be quite as satisfactory as those of the first half and earnings for the full year will therefore be in the neighborhood of $6 a share as compared with $4.40 a share last year and the previous post-depression high of $2.85 a share reported in 1937. It should be noted that the latest earnings were after the setting aside of more than $2,500,000 for taxes which amounted to more than $5 a share for the period.

Pyrene Manufacturing Company

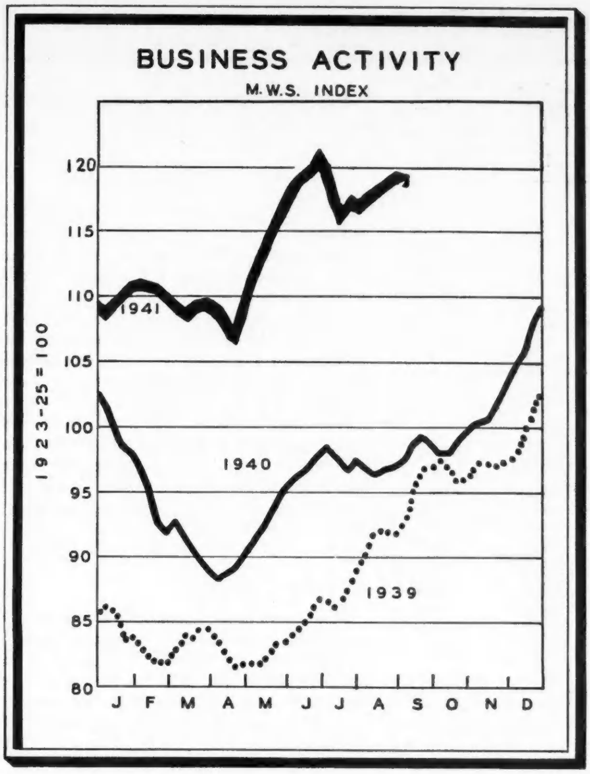
Although this is a relatively small manufacturing company, its products are so well known that in the minds of many people, the name Pyrene is synonymous with fire-extinguishers or similar devices. While Pyrene hand extinguishers are to be found everywhere they are not the company's only product. Other fire fighting and prevention devices are made as well as refills and brackets for the company's own and other fire extinguishers. Pyrene extinguishers are an old product but they constitute almost standard equipment for airplanes, war craft of many types, tanks, automobiles used for commercial and military purposes, factories and garages as well as a host of other locations. Except in the case of small vehicles and planes the usual equipment is well in excess of one extinguisher per unit.

The company has given out little sales information so that it is impossible to estimate how much business the company might have on hand and how long it might be engaged in the production of defense business. It is a fact, however, that the company had the largest operating profit in 1940 of any year since the outset of the recovery period. Last year, operating profits amounted to $464,250 as compared with $341,006 in 1939 and the best previous post-depression record of $301,587 reported for 1937. Net income of $336,170, which was equivalent to $1.73 a share of common stock, was also at new high levels. From the figures available it would seem as if the company has been receiving its full proportionate share of available defense business and due to the utility value of the company's products, it is probable that sales will continue to reflect the continued uptrend in production of the many items which require the inclusion of one or more of Pyrene Company's devices.

Timken-Detroit Axle Company

While Timken-Detroit has long been considered to be closely dependent upon the automotive industry for earnings, it has not been and will not be adversely affected by the reduction in automobile production since most of its products are designed for the use of heavy vehicles. In fact, the increased demand for trucks for both military and commercial use and the growing emphasis upon armored tank production has reacted favorably for the company. Timken-Detroit is the largest manufacturer of truck axles in this country and for defense purposes is also manufacturing gun carriages, tank drives and other special devices. The company has long been following a policy of product diversification designed to reduce the influence of automotive conditions. The best known product in the non-automotive line is the "Silent-Automatic" oil burner which has been selling in increasingly large numbers in recent years. The company acquired the Delta Manufacturing Company just prior to the outbreak of the war. Delta makes a line of light machine wood-working tools, which, because of the flexibility of application, have become highly important in mass production assembly of various items needed for defense. Priorities and restrictions on deferred payments will probably hamper the future sales of oil burners but the sales up to date have been at record levels and probably have anticipated a large part of next year's potential business. The manufacturing facilities released by the probable reduction in oil burner production will be utilized in the making of defense goods. The wood-working machinery is expected to continue without undue restriction on raw material supplies although the sales will be mostly to manufacturers and the Government rather than to individual craftsmen as has been customary in the past.

The company has recently adopted a new fiscal period which ends on June 30. The report for the fiscal year which ended last June indicates that the volume of business has been at record levels although there are indications that even these new high records will be exceeded in the current fiscal year. In the 12 months period which ended June 30, Timken (*Please turn to page* 706)



CONCLUSIONS

INDUSTRY—Wage-price-inventory excesses, plus reserve requirement and priorities increases, may cause greater than expected recession in civilian business activity.

TRADE—Department store unit sales dip below last year.

COMMODITIES—Prices show sharp variations, with losses predominant.

MONEY AND CREDIT—Increase in reserve requirements will reduce excess reserves to about $4 billion on Nov. 1.

The Business Analyst

During the past fortnight all components of this publication's business index, save **Electric Power Output** and check payments, have either fallen off at a somewhat greater than normal seasonal rate or picked up less than usual for this time of year. The net result of these cross currents has been a decline of nearly 1½ point in per capita **Business Activity** since our last issue. There is considerable evidence apart from the flabby behavior of our business index, that internal strains, augmented by Government pressure, are beginning to deflate the speculative component of the business boom. Following the Government's recent request for detailed information on **Inventories** there has been perceptible easing of the tight situation in several strategic materials. **Wage Increases** are tending to curtail production. In Arizona, for example, where wages are geared to copper prices frozen by the OPA, miners are being lured away by the higher pay obtainable at defense plants; and similar difficulties beset the canning industry. Rumors preceding the recently announced increase in reserve requirements have already exerted a mildly deflationary effect upon high grade bonds.

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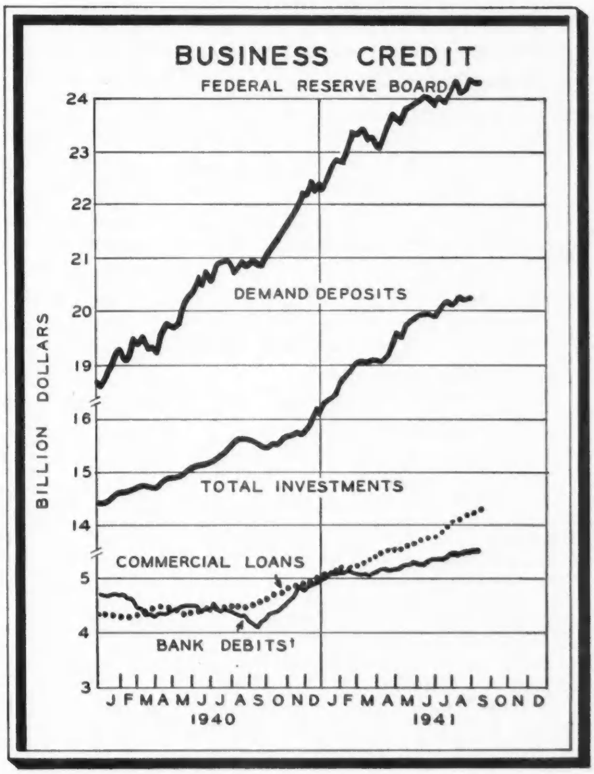
Thus in many respects the present overextend-

(Please turn to following page)



Business and Industry

	Date	Latest Month	Previous Month	Last Year
INDUSTRIAL PRODUCTION (a)	Aug.	164	162	121
INDEX OF PRODUCTION AND TRADE (b)	Aug.	111	93	113
Production	Aug.	115	92	114
Durable Goods	Aug.	121	86	122
Non-durable Goods	Aug.	112	95	109
Primary Distribution	Aug.	105	90	105
Distribution to Consumers	Aug.	107	98	116
Miscellaneous Service	Aug.	103	92	105
WHOLESALE PRICES (h)	Aug.	89.8	88.2	77.4
INVENTORIES (n. i. c. b.)				
Inventories	Aug.	147.6	145.1	120.7
New Orders	Aug.	250	262	159
Shipments	Aug.	206	202	136
COST OF LIVING (d)				
All Items	Aug.	89.4	88.9	86.0
Food	Aug.	87.3	86.2	79.9
Housing	Aug.	88.6	88.4	86.9
Clothing	Aug.	74.5	73.8	73.0
Fuel and Light	Aug.	88.6	87.8	84.8
Sundries	Aug.	98.8	98.7	97.4
Purchasing Value of Dollar	Aug.	111.9	112.5	116.3
NATIONAL INCOME (cm)†	July	7,442	7,661	6,215
CASH FARM INCOME†				
Farm Marketing	July	$887	$773	$673
Including Gov't Payments	July	902	798	708
Total, First 7 Months	July	5,242	......	4,532
Prices Received by Farmers (ee)	Aug.	131	125	96
Prices Paid by Farmers (ee)	Aug.	131	129	122
Ratio: Prices Received to Prices Paid (ee)	Aug.	100	97	79
FACTORY EMPLOYMENT (f)				
Durable Goods	July	137.8	135.1	98.4
Non-durable Goods	July	123.5	120.9	107.8
FACTORY PAYROLLS (f)	July	152.5	152.1	98.2
RETAIL TRADE				
Department Store Sales (f)	Aug.	135	115	98
Chain Store Sales (g)	Aug.	151	141	122.8
Variety Store Sales (g)	Aug.	159	145	128
Rural Retail Sales (j)	Aug.	209	178	146
Retail Prices (s) as of	July	99.5	98.9	92.8
FOREIGN TRADE				
Merchandise Exports†	July	$359	$330	$317
Cumulative Year's Total† to	July 31	2,446	......	2,381
Merchandise Imports†	July	278	280	232
Cumulative Year's Total† to	July 31	1,872	......	1,526
RAILROAD EARNINGS				
Total Operating Revenues★	July	$485,446	......	$366,220
Total Operating Expenditures★	July	311,035	......	262,065
Taxes★	July	57,262	......	35,210
Net Rwy. Operating Income★	July	106,315	......	57,725
Operating Ratio %	July	63.87	......	71.56
Rate of Return %	July	4.44	......	2.43
BUILDING Contract Awards (k)	Aug.	$760	$577	$415
F. H. A. Mortgages				
Selected for Appraisal†	July	120	......	122
Accepted for Insurance†	July	91	......	89
Premium Paying†	July	70	......	63
Building Permits (c)				
214 Cities†	Aug.	112	138	102
New York City†	Aug.	8	18	14
Total, U. S.†	Aug.	120	156	116
Engineering Contracts (En)†	Aug.	$397	$959	$530

PRESENT POSITION AND OUTLOOK

(Continued from page 695)

ed situation resembles the excesses of late 1936 and early 1937, which precipitated a sharp business depression. Barring an early peace, there will be no general depression this time; for defense activities, being must business, will prevent this. But, aggravated by priorities, it is quite possible that wage-price-inventory excesses may force a greater than expected recession in non-defense business, thereby clearing the way for faster expansion in armament output. Some suggestion of this may be read into the Federal Reserve Board's index of **industrial production,** which rose only a point in August, no more than our own index of **business activity.** Hitherto production has been expanding much faster than general business activity.

* * *

Abatement in the scramble to accumulate goods is particularly prominent in consumer lines. Thus **department store sales** in the week ended Sept. 13 were only 8% above last year, compared with increases of 19% for four weeks and 17% for the year to date. In view of the 10.4% rise in average **retail prices,** it appears that unit sales are currently somewhat under a year ago. Non-union labor, whose wages have not increased materially, is finding its purchasing power diminished by the 6% increase in **living costs** since January, 1940. The 14.4% increase in **food costs** makes it necessary to economize on other items in the budget which, fortunately, thus far have risen only 2.5%. **Wholesale prices,** however, are 18% above last year; but there is a gleam of hope for relief in the circumstance that the rise in **farm products** has tended to flatten out recently.

* * *

Chain store sales in August were 30% above last year, compared with an eight months' rise of only 20%. August's **mail order sales** were up 43%, against 28% for eight months; while **variety store sales** rose 16%, against 12%. Merchandise **exports** in July were 14% above last year, against a seven-months' gain of only 2%. July's **imports** were up only 17%, against 22% for seven months.

* * *

If rail workers are awarded a substantial wage increase, freight and passenger rates will have to go up, with a resulting additional boost to the general price level. Fortunately **railroad** operating efficiency is now at the highest level in history. Deadline for the fact finding board's report on wage demands is set for November 1.

* * *

Material shortages and a consequent reluctance by contractors to assume responsibility for costs or time of completion have caused the volume of home **building,** except in defense areas, to dip below last year on several occasions during the past few months.

	Date	Latest Month	Previous Month	Last Year
STEEL				
Ingot Production in tons★	Aug.	7,001	6,822	6,186
Pig Iron Production in tons★	Aug.	4,791	4,238	4,771
Shipments, U. S. Steel in tons★	Aug.	1,764	1,456	1,667
AUTOMOBILES				
Production				
Factory Sales	July	463,149	546,274	246,171
Total, First 7 Months	July	3,611,843	......	2,785,611
Registrations				
Passenger Cars, U. S. (p)	July	391,795	443,470	315,246
Trucks, U. S. (p)	July	67,412	62,265	49,053
PAPER (Newsprint)				
Production, U. S. & Canada★ (tons)	Aug.	377	377	403
Shipments, U. S. & Canada★ (tons)	Aug.	378	385	414
Mill Stocks, U. S. & Canada★ (tons)	Aug.	169	170	179
LIQUOR (Whisky)				
Production, Gals.★	Aug.	6,571	9,444	3,252
Withdrawn, Gals.★	Aug.	7,104	7,215	3,615
Stocks, Gals.★	Aug.	501,587	504,077	477,970
GENERAL				
Paperboard, New Orders (st)	July	569,252	525,325	398,191
Machine Tool Output (million $)	Aug.	64.3	57.9	40.8
Railway Equipment Orders (Ry)				
Locomotive	July	178	160	52
Freight Cars	July	10,889	29,299	16,406
Passenger Cars	July	35	32	15
Cigarette Production†	Aug.	17,777	18,404	15,840
Bituminous Coal Production★ (tons)	Aug.	45,650	39,010	43,300
Portland Cement Shipments* (bbls)	Aug.	17,825	16,687	14,018
Commercial Failures (c)	Aug.	954	908	1,128

PRESENT POSITION AND OUTLOOK

Commerce Department reports that on Jan. 1 there were 32,452,861 motor vehicles in the U. S.—71.7% of the world total. U. S. and Canadian plants turned out 3 million **automobiles** in the first half of the current year. Estimated second half reduced production of 2 million would be only 7% under the like period of 1940. The industry's research departments are planning better post war cars, using aviation (100 octane) gasoline.

* * *

Liquor industry can raise prices enough to more than compensate for higher taxes without inviting competition; because priorities will prevent bootleggers from obtaining alcohol, or copper for illicit stills. **Cigatette** production this year is expected to reach 200 billion—a new high record, and 11% above last year. Rising incomes are boosting cigar sales at the expense of pipe tobacco.

* * *

August **machine tool** shipments established a new high record; but were only 57% above last year, against an eight-months' increase of 87%. Owing to material shortages, **freight car** builders are turning out only half the rolling stock planned, about 25% of peak capacity. In the first eight months, 49,134 cars were put in service against 44,791 in the like period last year.

WEEKLY INDICATORS

	Date	Latest Week	Previous Week	Year Ago
M. W. S. INDEX OF BUSINESS ACTIVITY 1923-25—100	Sept. 20	118.0	118.7	99.3
ELECTRIC POWER OUTPUT				
K. W. H.†	Sept. 20	3,232	3,281	2,769
TRANSPORTATION				
Carloadings, total	Sept. 20	907,969	913,952	813,329
Grain	Sept. 20	44,839	45,045	40,943
Coal	Sept. 20	158,989	171,730	11,102
Forest Products	Sept. 20	45,364	45,655	41,022
Manufacturing & Miscellaneous	Spet. 20	400,474	390,866	331,589
L. C. L. Mdse	Sept. 20	160,224	158,787	157,201
STEEL PRICES				
Pig Iron $ per ton (m)	Sept. 23	23.61	23.61	22.61
Scrap $ per ton (m)	Sept. 23	19.17	19.17	20.29
Finished c per lb. (m)	Sept. 23	2.305	2.305	2.305
STEEL OPERATIONS				
% of Capacity week ended (m)	Sept. 27	97.5	97	93
PETROLEUM				
Average Daily Production bbls.*	Sept. 20	4,074	4,034	3,621
Crude Runs to Stills Avge. bbls.*	Sept. 20	3,995	4,010	3,592
Total Gasoline Stocks bbls.*	Sept. 20	80,199	80,555	82,565
Fuel Oil Stocks, bbls.*	Sept. 20	95,005	95,753	107,403
Crude—Mid-Cont. $ per bbl	Sept. 27	1.17	1.17	1.02
Crude—Pennsylvania $ per bbl	Sept. 27	2.23	2.23	1.48
Gasoline—Refinery $ per gal	Sept. 27	.085	.085	.05⅜

PRESENT POSITION AND OUTLOOK

Though **electric power output** has expanded during the past fortnight at about the normal seasonal rate, margin of increase over last year has narrowed a point to about 17%. A growing proportion of sales consists of low-priced industrial power, so that neither gross nor net is keeping pace with increased output. Electricity is the only item in the family budget priced less than a year ago.

* * *

Steel industry's earnings in the first half, equivalent to 8.9% on investment, were only 1% above the closing half of 1940 despite a 1% rise in production. Third quarter earnings will probably be under the second quarter, owing mainly to higher taxes.

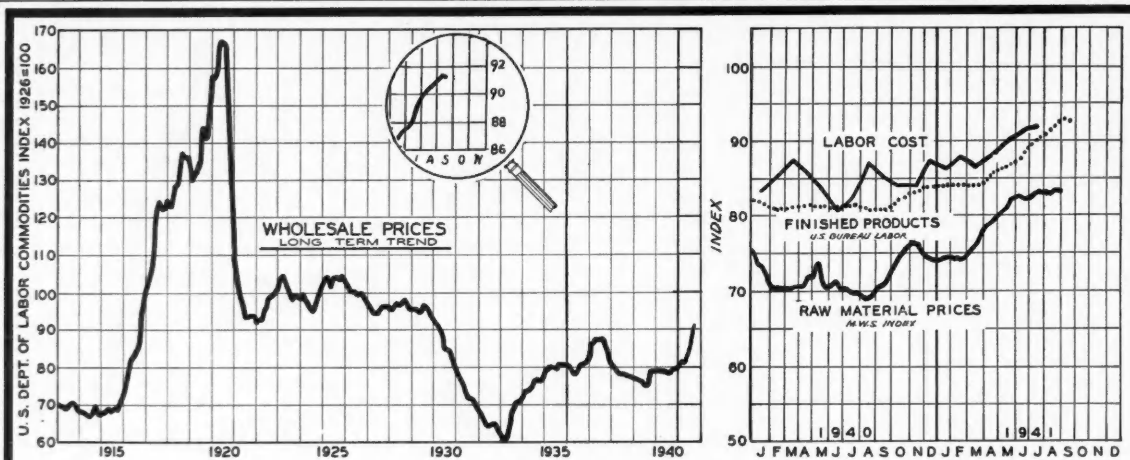
* * *

Difference of opinion between Acting Coordinator Davies and the Senate investigating committee as to **oil** shortage can be accounted for by the virtual certainty that more and more tankers will have to be diverted to England and Russia if the latter manages to hold out through the winter. Motorists will have to accept shortages, not only along the eastern seaboard but also on the Pacific coast and even in Latin America. Rising prices are lifting third quarter earnings over the second quarter, despite higher costs.

†Millions. ★—Thousands. (a)—Index Federal Reserve 1935-39—100. (b)—Federal Reserve Bank of N. Y. 100%—estimated long term trend. (c)—Dun & Bradstreet. (cm)—Dept. of Commerce estimates of income paid out. (d)—Nat. Ind. Conf. Bd. 1923—100. (e)—Dept. of Agric., 1924-29—100. (ee)—Dept. of Agric., 1909-14—100. (En)—Engineering News-Record. (f)—1923-25—100. (g)—Chain Store Age 1919-31—100. (h)—U. S. B. L. S. 1926—100. (j)—Adjusted—1929-31—100. (k)—F. W. Dodge Corp., (m)—Iron Age. (n)—1926—100. (n. i. c. b.)—Nat. Ind. Conf. Bd. 1935-39—100. (p)—Polk estimates. (pc)—Per cent of capacity. (pl)—Preliminary. (r)—Revised. (Ry)—Railway Age. (s)—Fairchild Index, Dec., 1930—100. (st.)—Short tons.

Trend of Commodities

The action of commodity markets recently can only be described as inconsistent, and for the first time in many weeks even the action agricultural commodity prices failed to display uniformity. Last week, for example, cotton prices slumped more than $3 a bale, while wheat and corn prices rose 5 cents a bushel. Coffee and sugar prices dropped off sharply but cocoa futures, on the other hand, were strong. Moody's index of sensitive commodity prices is now more than six points under the high reached on September 29. For the most part commodity markets last week apparently took their cue from stock market which suffered its sharpest reaction since last April, following the announcement of Secretary of Treasury Morgenthau advocating that corporate profits be limited to 6 per cent on invested capital. By the week's end, however, it was clearly evident that this proposal would meet strong Congressional opposition, and some replacement buying made its appearance is most commodity markets.



U. S. DEPARTMENT OF LABOR INDEX OF 28 BASIC COMMODITIES
Spot Market Prices—August, 1939, equals 100

	1941 High	1941 Low	Sept. 19	Sept. 26
28 Basic Commodities	156.9	105.6	155.8	155.5
Import Commodities	159.6	104.7	156.7	157.3
Domestic Commodities	156.5	105.5	155.2	154.4
Domestic Agricultural	166.4	111.4	163.6	161.7
Foodstuffs	172.6	100.5	170.1	170.3
Raw Industrial	146.9	101.3	145.8	145.2

	Date	Latest Wk. or Mo.	Previous Wk. or Mo.	Year Ago
COTTON				
Price cents per pound, closing				
October	Sept. 27	16.43	16.97	9.58
December	Sept. 27	16.57	17.18	9.58
Spot	Sept. 27	17.18	17.98	9.97
(In bales 000's)				
Consumption, U. S.	Aug.	875	929	655
Exports, wk. end	Aug. 29	......	8	9
Total Exports, season Aug. 1 to	Aug. 29	18	18	48
Government Crop Est.	Sept. 1	10,710	......	12,686(ac)
WHEAT				
Price cents per bu. Chi. closing				
September	Sept. 27	122⅜	117¼	82½
December	Sept. 27	126⅝	120½	81¾
Exports bu. (000's) since July 1 to	Aug. 23	24,700	......	17,020
Exports bu. (000's) wk. end	Aug. 23	2,785	3,602	1,874
Visible Supply bu. (000's) as of	Aug. 23	217,648	215,539	161,130
Gov't Crop Est. bu. (000's)	Sept. 1	957,563	......	816,698(ac)
CORN				
Price cents per bu. Chi. closing				
September	Sept. 27	81⅞	76⅛	57⅜
December	Sept. 27	87¾	81⅞	58¾
Exports bu. (000's) since July 1 to	Aug. 23	2,825	......	6,537
Visible Supply bu. (000's) as of	Aug. 23	37,232	37,931	25,229
Gov't Crop Est. bu. (000's)	Sept. 1	2,253,964	......	2,449,200(ac

PRESENT POSITION AND OUTLOOK

Cotton. Cotton prices, extending the reaction of the previous week, declined about $3 a bale, bringing the total loss from the season's high set earlier in September to about $9 a bale. Responsible for the price drop were such factors as favorable weather reports, and an increasingly heavier movement of actual cotton in the South. Growers advised by Senator Bankhead to withhold their supplies may grow uneasy, particularly with the approach of the seasonal peak of movement of cotton to market.

* * *

Wheat. The market action of grain prices was in sharp contrast with that of cotton. Sentiment responded apparently to the plans for expanding the Lend-Lease program. Of particular interest was the report that the U. S. and Canada were discussing plans for a food pool with which to feed Europe after the end of the war. Soy beans continued to hold the speculative limelight, with prices spurting 2 cents a bushel on Saturday.

* * *

Corn. Prices were firm to higher under the impetus of reports that corn may be used in considerable quantities for industrial purposes.

	Date	Latest Wk. or Mo.	Previous Wk. or Mo.	Year Ago
COPPER				
Price cents per lb.				
Domestic	Sept. 27	12.00	12.00	11.50
Exports f. a. s. N. Y.	Sept. 27	11.00	11.00	9.90
Refined Prod., Domestic*	Aug.	85,426	86,879	80,851
Refined Del., Domestic*	Aug.	117,262	143,089	97,719
Refined Stocks, Domestic*	Aug.	72,154	74,384	198,955
Copper Sales, Domestic*	Aug.	......	99,912	67,281
TIN				
Price cents per lb., N. Y.	Sept. 27	52	52	51.25
Tin Plate, price $ per box	Sept. 27	5.00	5.00	5.00
World Visible Supply† as of	June 30	38,600	40,777	31,869
U. S. Deliveries†	July	12,575	14,880	7,325
U. S. Visible Supply† as of	July	5,864	2,846	6,567
LEAD				
Price cents per lb., N. Y.	Sept. 27	5.85	5.85	5.00
U. S. Production*	Aug.	39,100	42,048	36,851
U. S. Shipments*	Aug.	55,005	54,067	51,643
Stocks (tons) U. S., as of	Aug. 31	15,330	19,172	43,321
ZINC				
Price cents per lb., St. Louis	Sept. 27	7.25	7.25	7.25
U. S. Production*	Aug.	75,524	74,641	57,196
U. S. Shipments*	Aug.	61,061	62,714	59,511
Stocks U. S., as of*	Aug. 30	17,969	13,848	52,214
SILK				
Price $ per lb. Japan xx crack	Sept. 27	3.57	3.57	2.55
Mill Dels. U. S. (bales)	Aug.	2,069	28,528	30,189
Visible Stocks N. Y. (bales) as of	Aug. 30	53,988	47,208	46,898
RAYON (Yarn)				
Price cents per lb	Sept. 27	53	53	53
Consumption (a)	Aug.	37.3	39.4	34.0
Stocks as of (a)	Aug. 30	4.1	3.6	9.3
WOOL				
Price cents per lb. raw, fine Boston	Sept. 27	1.06	1.06	.87
Consumption, period ending (a)	July 31	46,765	41,904	28,430
HIDES				
Price cents per lb. No. 1 Packer	Sept. 27	15	15	12½
Visible Stocks (000's) as of	July 31	13,441	13,479	12,718
No. of Mos. Supply as of	July 31	5.76	5.98	8.18
Boot and Shoe Production, Prs.★	July	44,253	39,726	34,012
RUBBER				
Price cents per lb	Sept. 27	22⅝	22⅝	19.62
Imports, U. S.†	Aug.	105,456	97,081	73,028
Consumption, U. S.†	Aug.	55,365	68,653	53,307
Stocks U. S. as of	Aug. 31	444,890	395,216	194,760
Tire Production (000's)	Aug.	5,005	5,603	4,676
Tire Shipments (000's)	Aug.	5,400	6,456	4,123
Tire Inventory (000's) as of	Aug. 31	5,834	6,235	9,911
COCOA				
Price cents per lb	Sept. 27	7.75	7.75	4.47
Arrivals (bags 000's)	Aug.	210	511	508
Warehouse Stocks (bags 000's)	Sept. 26	1,487	1,486	1,340
COFFEE				
Price cents per lb. (c)	Sept. 27	13⅜	13⅜	7⅛
Imports, season to (bags 000's)	Sept. 1	1,343	......	2,159
U. S. Visible Supply (bags 000's)	Sept. 1	2,203	2,187	1,473
SUGAR				
Price cents per lb.				
Raw	Sept. 27	3.60	3.60	2.75
Refined (Immediate Shipments)	Sept. 27	5.25	5.25	4.35
U. S. Deliveries (000's)*	Aug.	819	735	646

PRESENT POSITION AND OUTLOOK

Copper. The plan to subsidize high cost domestic producers of copper will probably be put into effect in the near future. This calls for payment of 1 cent a pound over and above "out-of-pocket" costs. This means that Metals Reserve Corp. will pay in excess of the 12-cent ceiling, but the price to consumers will remain the same.

* * *

Tin. After dipping momentarily Singapore prices again rose to the equivalent of 51.80 cents N. Y., which makes it virtually impossible for importers to do business under the 52-cent ceiling.

* * *

Lead. Stocks of refined lead in the U .S. at the end of August totaled only 15,330, a record low, equivalent to less than a week's supply at the recent rate of deliveries. These figures, however, do not take into account purchases of foreign lead by Metals Reserve Corp.

* * *

Zinc. OPM announced that the October kitty will again be 27% of August production. This would yield the pool about 20,440 short tons.

* * *

Rayon. The past fortnight brought a retreat by the OPA, at least as far as rayon is concerned. Leon Henderson announced that price increases of about 4% in rayon yarn prices by a leading producer had the full sanction of his office. Apparently this advance however is regarded as a negative victory for OPA to the extent that a more substantial rise was avoided.

* * *

Wool. Domestic processors are worried about the Australian supply on the reasoning that it may be largely diverted to Russia next year. Imports account for about 30% of domestic needs.

* * *

Hides. Buying of hides by tanners last week attained the largest volume in several months, with sales estimated at 300,000 hides in both Argentine and domestic markets. Tanning operations continue at peak levels, and inventories are relatively insignificant.

* * *

Rubber. August consumption by domestic processors declined 19.4% from the July volume. Imports on the other hand were up 8.6% as compared with July, while the gain was 44.4% over August a year ago. Including Government reserves, total domestic supplies at the end of August amounted to 444,890 long tons an increase of 12.6% over the previous month, and 128.4% over August, 1940.

* * *

Coffee. Latin-American growers are not satisfied with Washington ideas of what is a fair price.

* * *

Soy Beans. Soy bean growers are cashing in on the shortage of cottonseed oil and imported vegetable oils. Soy bean oil is coming into increasing use for shortening salad dressings and paint.

* * *

Sugar. August deliveries totaled 819,203 tons compared with 644,574 tons delivered durthe same month a year ago. Raw stocks in refiners' hands at the end of August amounted to 527,630 short tons compared with 526,625 tons at the same time last year.

†Long tons. *—Short tons. (a)—Million pounds. (ac)—Actual. (c)—Santos No. 4 N. Y. ★—Thousands. NA—Not available.

Money and Banking

	Date	Latest Week	Previous Week	Year Ago
INTEREST RATES				
Time Money (60-90 days)	Sept. 27	1¼%	1¼%	1¼%
Prime Commercial Paper	Sept. 27	½-¾%	½-¾%	½-¾%
Call Money	Sept. 27	1%	1%	1%
Re-discount Rate, N. Y.	Sept. 27	1%	1%	1%
CREDIT (millions of $)				
Bank Clearings (outside N. Y.)	Sept. 13	2,741	......	2,282
Cumulative year's total to	Aug. 31	15,905	......	11,974
Bank Clearings, N. Y.	Sept. 13	2,964	......	2,303
Cumulative year's total to	Aug. 31	14,158	......	11,388
F. R. Member Banks				
Loans and Investments	Sept. 17	29,098	29,230	24,188
Commercial, Agr., Ind. Loans	Sept. 17	6,362	6,310	4,480
Brokers Loans	Sept. 17	469	588	390
Invest. in U. S. Gov'ts	Sept. 17	11,088	11,183	9,361
Invest. in Gov't Gtd. Securities	Sept. 17	3,320	3,313	2,596
Other Securities	Sept. 17	3,773	3,759	3,665
Demand Deposits	Sept. 17	24,375	24,503	20,901
Time Deposits	Sept. 17	5,430	5,431	5,358
New York City Member Banks				
Total Loans and Invest.	Sept. 24	12,211	12,152	9,678
Comm'l Ind. and Agr. Loans	Sept. 24	2,450	2,435	1,742
Brokers Loans	Sept. 24	342	336	285
Invest. U. S. Gov'ts	Sept. 24	5,170	5,147	4,044
Invest. in Gov't Gtd. Securities	Sept. 24	1,870	1,857	1,374
Other Securities	Sept. 24	1,552	1,548	1,434
Demand Deposits	Sept. 24	10,816	10,781	9,681
Time Deposits	Sept. 24	759	762	730
Federal Reserve Banks				
Member Bank Reserve Balance	Sept. 24	13,273	13,328	13,596
Money in Circulation	Sept. 24	10,070	10,046	8,080
Gold Stock	Sept. 24	22,749	22,741	20,981
Treasury Currency	Sept. 24	3,194	3,188	3,038
Treasury Cash	Sept. 24	2,350	2,408	2,287
Excess Reserves	Sept. 24	5,200	5,250	6,540
		Latest Month	Previous Month	Year Ago
NEW FINANCING (millions of $)				
Corporate	Aug.	402	130	181
New Capital	Aug.	327	44	70
Refunding	Aug.	74	86	113

COMMENT

The Federal Reserve Board took a long anticipated step last week when reserve requirements were raised to the maximum limit permitted by the present law. This move, however, resulted in barely a ripple in so far as it was reflected in the financial centers of the nation. High grade bonds, including government obligations, had eased off some days previously, but the decline was relatively slight. The increased reserve requirement will not be effective until November 1, next, and on the basis of the present figures excess reserves would be cut from about $5.2 billion to approximately $4 billion. The latter figure is, of course, more than adequate to support any credit requirements conceivable at this time. It is virtually a foregone conclusion, however, that the Federal Reserve Board will urge Congress to grant them broader powers to deal with excess reserves and other monetary controls as part of anti-inflation controls.

* * *

According to reports leading New York City banking institutions were pleased with the action of the Federal Reserve in raising reserve requirements. At least they regard it as a step in the right direction. Theoretically, the lowering of the credit base should result in some tightening of interest rates, or in other words some increase in the price of the commodity which banks sell, namely, credit. It is also significant that the Treasury Department approved of this latest move on the part of the Federal Reserve Board. Previously the Treasury was far from being in full accord with the anti-inflation program advocated by the Federal Reserve Board and sponsored by Marriner S. Eccles earlier in the year. Just how far the Treasury is prepared to cooperate, however, is not known. It is probable though that some months will elapse before further moves are made.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEX

No. of Issues	(1925 Close—100)	1941 Indexes High	Low	Sept. 20	Sept. 27
290	COMBINED AVERAGE	56.9	46.3	55.5	53.6
4	Agricultural Implements	99.9	72.2	96.6	94.1
9	Aircraft (1927 Cl.—100)	199.4	137.1	196.5	185.1
4	Air Lines (1934 Cl.—100)	314.1	198.9	289.7	274.4
6	Amusements	31.7	20.8	31.1	30.3
14	Automobile Accessories	95.7	74.8	86.6	83.2
13	Automobiles	11.1	7.5	9.3	8.9
3	Baking (1926 Cl.—100)	10.7	7.5	7.7	7.5
3	Business Machines	104.6	86.5	99.2	97.8
2	Bus Lines (1926 Cl.—100)	64.3	43.9	52.9	50.5
8	Chemicals	165.8	135.5	162.1	158.7
18	Construction	26.1	19.5	24.2	23.2
5	Containers	203.7	166.0	189.5	184.5
10	Copper & Brass	88.8	68.8	79.9	75.3
2	Dairy Products	29.9	25.5	29.3	29.9h
6	Department Stores	23.2	16.7	22.8	21.8
6	Drugs & Toilet Articles	45.4	31.1	45.4h	42.9
2	Finance Companies	182.3	134.8	149.1	146.3
7	Food Brands	93.1	74.9	93.1h	90.6
2	Food Stores	45.2	36.7	45.1	44.5
4	Furniture	42.2	33.6	37.1	36.4
2	Gold Mining	703.8	587.6	658.1	595.5
6	Investment Trusts	19.2	15.1	18.0	17.4

No. of Issues	(Nov. 14, 1936, Close—100)	1941 Indexes High	Low	Sept. 20	Sept. 27
100	HIGH PRICED STOCKS	60.10	51.01	58.42	57.00
100	LOW PRICED STOCKS	48.83	37.78	46.49	44.63
3	Liquor (1932 Cl.—100)	169.9	111.5	166.3	165.2
9	Machinery	111.9	88.0	99.5	94.2
2	Mail Order	75.6	64.3	69.4	68.2
4	Meat Packing	53.2	40.3	51.6	50.9
11	Metals, non-Ferrous	138.6	109.5	128.0	123.2
3	Paper	14.2	11.0	13.7	13.2
21	Petroleum	86.1	67.4	82.3	81.2
18	Public Utilities	38.6	23.3	24.7	23.6
3	Radio (1927 Cl.—100)	9.9	6.7	7.9	7.7
9	Railroad Equipment	48.0	36.3	42.6	40.8
17	Railroads	11.6	7.5	10.1	10.1
2	Realty	2.9	1.6	2.7	2.1
2	Shipbuilding	129.7	102.3	126.1	118.6
12	Steel & Iron	82.6	62.8	70.9	69.9
2	Sugar	37.7	17.5	34.9	33.1
2	Sulphur	194.3	161.0	190.8	185.7
3	Telephone & Telegraph	45.9	33.2	42.7	42.8
2	Textiles	48.5	33.0	44.8	42.3
3	Tires & Rubber	13.6	9.5	13.2	12.6
4	Tobacco	73.7	62.1	68.0	67.8
3	Variety Stores	213.7	184.8	211.4	207.6
19	Unclassified (1940 Cl.—100)	105.7	86.3	103.6	99.1

h—New HIGH this year.

Answers to Inquiries

The Personal Service Department of THE MAGAZINE OF WALL STREET will answer by mail or telegram, a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliability of your broker. This service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject only to the following conditions:

1. Give all necessary facts, but be brief.
2. Confine your requests to *three listed securities.*
3. No inquiry will be answered which does not enclose *stamped, self-addressed envelope.*
4. If not now a paid subscriber use coupon elsewhere in this issue and send check at same time you transmit your inquiry.

Special rates upon request for those requiring additional service.

American Smelting & Refining Co.

Is now the time to sell my 50 shares of American Smelting and Refining? I am under the impression that this stock now close to its high for the year fully discounts operations at capacity for some time to come—and that I will be able to use my funds to greater advantage in purchasing shares of a company just as sound as American Smelting—but with most of its growth still ahead and undiscounted. Do you agree with my opinion? . . . Or, do you believe American Smelting is in a position to move higher towards its 1940 high of 54 and better? In your reply, please tell me whether or not earnings for the final half of 1941 are likely to better the $2.29 per share earned for the first six months . . . taking into consideration the current Government established price for such non-ferrous metals as copper, lead and zinc . . . what effects increased Mexican lead sales to the U. S. should have . . . the company's tax position, labor, operating costs and transportation charges.—S. S., Tulsa, Oklahoma.

In addition to its primary business of processing of non-ferrous metals mined by others, American Smelting & Refining Co. owns, manages and leases mining properties. Earnings tend to fluctuate rather widely between good times and bad since the business of the company is essentially one of volume. In view of the current outlook, a sustained level of earnings is indicated although there are certain factors which may preclude any appreciable gains from current levels. Prices have been established by the Government for three principal non-ferrous metals, namely copper, lead and zinc. With current operations at capacity levels and without the benefit of higher prices, it seems quite likely that mining operations will not enlarge current earnings. During the year, however, the company will benefit by increased lead sales from its Mexican mines and since it is sharing in the recent purchase of 225,000 tons of foreign lead made to the Metals & Reserve Co. earnings may improve. Increasing taxes and higher costs of operation in all probability will tend to restrict earnings expansion. It is our opinion that earnings for the full year 1941 should run slightly in excess of the $4.21 a share earned in 1940. The regular dividend of $2 per share will probably be increased by an extra disbursement before the close of the year, comparing favorably with distributions for the year 1940.

General Cable Corp. and Revere Copper & Brass are showing substantial increases in earning power, proving to be a profitable interest for this company. Their operations are at capacity levels and such a condition is expected to continue over the near term. The working and financial position of American Smelting & Refining Co. is characteristically strong and with the completion in early 1942 of the new zinc smelter at Corpus Christi, ultimate results may be improved by this and other programs of expansion carried on by the company. Therefore we feel that your commitment is worthy of full retention at this time in view of good yield on funds invested and appreciation possibilities with a favorable market.

Loew's, Inc.

My 150 shares of Loew's are now a few points above the price at which I bought them, and I am wondering whether I had not better sell and take this small profit. Considering the fact that Loew's is currently selling at 37⅛, a new high for 1941 and approximately at the high for 1940—do you agree that sale of my shares is advisable? In the opinion of your analysts, is it probable that earnings for the year will catch up and equal last year's net? Is the company on a permanently sound basis now as far as operating economy compatible with the highest degree of efficiency? To what extent are increased earnings due to rising consumer income responsible for the lift in earnings? Isn't the tendency to spend for amusement likely to be curtailed as higher taxes reach the consumer? Won't the new Government "Consent decree" increase the costly picture sales? Please tell me what you know of the Loew's situation . . . production . . . distribution . . . and exhibition—and how your findings should be interpreted marketwise.—J. J., Denver, Colo.

With Loew's, Inc., recently making a new high for the year and also

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being above the high of 37⅝ for the year 1940 speaks well of the demand for the stock. With the industrial averages selling considerably below the high for 1940, this stock is obviously acting better than the market as a whole. Earnings for the fiscal year which ended August 31, 1941, are not as yet available but it is expected that a profit of approximately $4.50 per share will be reported for this fiscal year. If such earnings are realized they would compare with $4.82 per share for the fiscal year of 1940 and $5.37 per share for the year 1939. The estimated earnings for the fiscal year just completed are thought to be after setting aside about $4,000,000 in reserves as against blocked foreign income and other possible contingencies.

The outlook for this company for the coming year especially so for the early months is quite favorable. The management's actions are conducive of sound operating policies resulting in a high degree of efficiency. Add to this the fundamental factor in the rising consumer purchasing power which is more widely diffused than in recent years contributing substantially to further increased theatre attendance. Of course there will be higher tax burdens placed upon individuals as well as corporations but the American people will have their amusements and motion pictures have always been a source of entertainment at reasonable prices. While the new consent decree may tend to cause a little rearranging of procedure previously used in distributing pictures, we feel that such an effect will only be temporary.

Dividends so far this year have amounted to $1.50 per share and it is expected that the regular dividend will be continued with another declaration of 50 cents per share before the close of the year with a strong possibility of an extra dividend similar to the one paid last year at the close of the calendar year. With earnings only slightly under 1940 it is quite possible that full year distributions will compare favorably with the $3 paid in 1940. With the expansion of interests in South American markets and a continuing increase in theatre attendance in this country, we view the future for Loew's, Inc., in a favorable light. We are counseling full retention of your stock at this time, feeling that it is of semi-investment caliber and worthy of retention in diversified investment portfolios.

R. H. Macy & Co.

How have earnings of R. H. Macy responded to the summer boom in retail sales? Do you forecast an all-time earnings record for Macy for the last half of this year? Has sales activity over recent months been mainly in consumers' durable goods? Did Macy pay higher prices for such goods? What about resale prices and profit margins? Can Macy's net achieve a new high for the remaining months of this year with volume sales concentrated mainly in "soft goods" lines? Is it expected that volume should offset higher taxes and operating costs sufficiently to permit leeway for greatly increased profits? Do you believe that the retail boom can continue despite the reduction in personal income tax exemptions, government retail price ceilings, taxes on luxuries, etc.? Will you please report on the activities of each of the company's several stores? My 75 shares cost me 30¾. Do you think the price of this stock this year will materially exceed the high of 31 of last year?—J. M. G., Denver, Colo.

R. H. Macy & Co. which operates its main store in New York City as well as L. Bamberger & Co. of Newark, New Jersey, the LaSalle & Koch store in Toledo and Davison & Paxon Co. in Atlanta, is experiencing increased sales over comparable periods last year. This has been brought about by an enlarged purchasing power created as a result of the greater employment and more widely diffused consumer demand. This trend has been accelerated by the thought in some quarters of stocking up before supplies become depleted such as was the case in the recent rush to buy silk goods. Department stores have been endeavoring to maintain steady prices but it is expected that in the near future increases will be witnessed due to higher replacement costs. Profit margins have been maintained on a favorable base due to lower cost inexpected to continue for the balance of the year. Higher taxes and operating expenses will be passed along to the consuming public wherever possible. Increasing purchasing power and advancing sales trend should offset to a great extent higher expenses of the company. While the lowering of personal income tax exemptions may have a slight effect on retail purchases, such does not appear to constitute a prohibitive ceiling upon expansion of retail sales. The setting of retail price ceilings, taxes on luxuries and other such restrictions may have a tendency to limit sales but if such is the case other products may be added to offset such a loss.

Since the company is now offering merchandise on credit, facilitated by an agreement with the Morris Plan Industrial Bank of New York, sales should have an added impetus and improve the competitive position of

The dug line which is being distributed to outside retail stores is encouraging but the competition with chain drug stores is very keen. Progress of the Syracuse store which is still in its infancy is considered favorable although no definite reports have been given by

the company. They have not in the past broken up their earnings reports to make such information available but like the Parkchester store it is believed that the future is relatively satisfactory.

The stock of R. H. Macy & Co. is not considered a volatile market mover. Whether or not it will exceed the 1940 high of $31 per share is problematical but in view of its current selling price near the high for 1941, such would be considered possible. In the first six months of the 1941 fiscal year earning 31 cents versus a loss of 27 cents per share in the comparable period last year. Distributions for the year should compare favorably with those dispersed last year and with the improving tone of the market, the stock could show moderate appreciation from current levels. Therefore it is our opinion that the stock is worthy of retention at this time for its good yield and moderate appreciation possibilities.

Great Northern Railway Co.

Although at top for 1941 (current price 25⅝) would it be advisable to add to my 75-share investment in Great Northern (price paid 30) at its present price? What is your estimate of earnings for the remaining months of the year, realizing that the company earned $2.76 for the first 7 months of this year? What should further diversion of freight from coast-wise ships mean to Great Northern? How is the company's dividend income being increased from its interests in the Chicago, Burlington & Quincy R.R. system? Is Great Northern's system now carrying peak traffic of coal, iron ore, lumber, manufactured products and wheat combined? Is there still large leeway for freight handling? In your final analysis is Great Northern at present a bargain? What about the prospect of Government operation of the railroads?—V. N., Louisville, Ky.

The preferred stock of Great Northern Railway Co., representing the sole equity interest for this better than average railroad, operating in the extreme Northwest part of our country, is in a favored position. Jointly with the Northern Pacific Railway Co., it owns the Chicago, Burlington & Quincy system which goes south into Kansas City and St. Louis from upper Montana. With connections with Colorado & Southern, a north and south route is opened up down through Wyoming and Colorado, tapping another source of traffic. Principal tonnage of commodities originating and received from connections are gained from iron ore, wheat and soft coal, which in 1940 accounted for 55.6%, 5.6% and 5% of total tonnage respectively.

Earnings have shown an improving trend since 1932 when $5.39 per share was lost to 1937 when $4.04 per share was earned. A recession in earnings was noted in 1938 when $1.09 per share was earned, quickly to expand to $4.08 per share for the year 1940. For the year 1941 earnings are estimated to approximate $6 per share with ore loadings accounting for a large portion of increased profits. Curtailed exports of wheat may account for a slackening of these shipments but the increasing importance of coal may offset this temporarily adverse factor. Diversion of water shipping should also aid the near term outlook for earnings. Normally over a period of time, January and February are unprofitable months, but in March income usually turns to the profitable side, increasing up to September when the peak is usually witnessed.

The demand by labor for increased wages varying in estimates from 500 to 900 million dollars, have been turned over to the Mediation Board for settlement. It is estimated that if a 7½% increase is granted in wages and based upon 1940 payrolls it will approximate $1.10 per share for Great Northern.

Attesting to the improved outlook and more favorable operating results the directors have been declaring dividends of 50 cents per share on a quarterly basis so far in 1941. While it has not been stated that this can be considered a fixed dividend basis, it is believed that such distributions will continue throughout the balance of the year with a possibility of a year end extra distribution. Taxes, higher operating costs and increased costs for new equipment will tend to restrict earnings expansion. Increasing earnings and profit margins for Chicago, Burlington & Quincy R. R. Co. augurs well for greater profits to Great Northern R. R. Co. So far we do not see any definite indication of Government control of our railroad systems but of course such is a possibility under the current emergency resulting from our defense program. The railroads of the country are in a far better shape from a standpoint of equipment and facilities than they were in the World War period when such an act was deemed necessary.

The stock of Great Northern Railway Co. has not been acting particularly well marketwise in recent weeks, due in part to the overhanging demands of labor for higher wages, but we feel that your commitment of 75 shares of the preferred stock is worthy of full retention at this time. Upon the completion of the wage problem, if it is settled in a satisfactory way, it would then be deemed worthy of consideration for additional purchases but such an act should be postponed for a time.

American Can Co.

I have been an investor in American Can for a long time—but have never had as much concern about the security of my investment in this company as I have now. First of all, I paid 130 for my 100 shares; compare that with the 82⅞ it is selling at now—and secondly I am concerned about the $4 dividend with costs the way they are rising now, the possible shortage of tin and above all higher taxes. Do you feel my concern unjustified? Do you believe that rising volume will mean higher profits? Are dividends secure? Given more favorable market conditions, is American Can in a position to reestablish itself at 1940 high levels? Has the company ample tin supplies to cover all of this year's requirements? Does the company have any alternate substitutes for tin in the event that the latter is not obtainable? Aware of the large amount of capital I have invested in this stock, I am sure your advice to me will be based on the most careful analysis of all factors which should determine its investment future. Thank you.—Mrs. R. J. J., Pittsfield, Mass.

While American Can Co. does not report interim earnings, it is expected that 1941 results will closely approximate the $5.88 per common share reported in the year 1940. Peak earnings since 1934 when $6.72 per share was earned were established in the year 1939 when $6.22 pere share was recorded. The annual dividend rate of $4 per share should be covered even in the face of higher taxes, and some increase in operating costs. This belief is substantiated by the strong financial position maintained by the company and the favorable outlook for increased sales. The production of tin and fiber containers is setting new high records, a condition which is expected to continue. The expanding industrial activity throughout the country lends further promise to the continued strong demands for general line cans aided by the large food packs and higher consumer income should improve the outlook for the packers' can division.

According to Government estimates, packs of fruit and vegetables this year will run 15% to 20% higher than in 1940 and will probably be readily absorbed by increased demand for our own armed forces as well as those of Great Britain. American Can reports that demand for its paper containers continues to expand and productive capacity for one-quart containers will be raised to 750,000,000 units anually. Sales of beer containers are understood to be at comparable levels with last year, but since there is a possibility of curtailment under a non-essential classification, expansion in this division may be restricted. Another important factor is that the company is participating in defense, utilizing about 60% of its machine shop capacity in sub-contracting work on defense orders. There may be some increased competition from glass container companies but such is not believed to be of importance as to impair the outlook for this company.

At current levels the common stock of American Can Co., which has long been considered a high-grade investment issue, appears to us worthy of retention. While your purchase price is considerably above current market levels, income derived therefrom at current prices is good. Whether per share prices will appreciate to your purchase price over the near term is of course problematical, but with a broad advance in the market at least moderate appreciation can be expected.

Allis-Chalmers Mfg. Co.

Allis-Chalmers at its current price of around 29 still stands a long way from reflecting the millions of order backlogs on hand and the exceptional position of this company as a beneficiary of arms orders and rising farm purchasing power. I have 75 shares of Allis-Chalmers bought at 40. Is the company still suffering from the effects of the strike-stoppage earlier this year? How do your analysts estimate the earnings outlook for this company for the third quarter—last half of this year? Will higher taxes render this company incapable of showing any substantial improvement over the $2.84 earned last year? Is the company primarily engaged now in defense production? What is happening to its regular farm business? How do profits on regular commercial and farm implement business compare with profits on defense orders? Will you please survey this entire situation for me, and give me your advice as to the prospects of this stock as a market leader this year . . . your opinion of its income possibilities?—E. P., St. Louis, Mo.

In the first six months of 1941, Allis Chalmers Mfg. Co. earned $1.34 per common share as compared with $1.47 per share for the corresponding period of 1940. This decline in earnings was caused in the main by expenses incident to the strike at the company's main plant in the early part of the year, causing non-recurring expenses for the period. Earnings for the full year, however, should be in excess of the $2.84 per share reported for the year 1940. As of June 30, 1941, unfilled orders were $95,145,147 as compared with $23,618,518 a year ago. Since that time substantial orders have been received as well as consummation of lease agreements with Defense Plant Corporation for expanding plant facilities and increasing output. While the company was adversely affected by the strike, operations do not appear to be restricted as the result thereof. Operating costs are of course somewhat higher and taxes will obviously be increased. Nevertheless, the earnings outlook for this company is favorable. It has been reported that about 60% of the current business by the company is directly linked to defense business. While farm machinery in the past has accounted for approximately 55% of sales, electrical division about about 23%, with various machine divisions 22-odd per cent, such percentages are in view of the present emergency somewhat altered.

Profit margins should continue favorable but the important factor is the increasing trend in taxes and operating costs. With an operating ratio of 88.4% for the year 1940, the best since 1937, when 87.3% was achieved, is a favorable factor in company's earnings capacity. This operating ratio has dropped from 93.6% in the year 1938 and with increased volume business for the year 1941, it is quite possible that the operating ratio will decline even further. Dividend distributions which were suspended temporarily due to the strike have been resumed and as yet it is a little too early to estimate total distributions for the year 1941. Nevertheless, we feel that with the new lease agreement with the R F C for new plant and facilities, that earning power will be increased. Therefore we feel that the future of this company is sufficiently promising to warrant full retention of your commitment at this time. Pricewise, with better market conditions, moderate appreciation over the near term is a strong possibility.

American Locomotive Co.

I am greatly interested in knowing what you think of the appreciation possibilities of American Locomotive, common. I have 100 shares bought at 20, and would like to buy 100 more at current levels, if I get some assurance from you based on the facts, that this stock is now coming into its hey-day earnings-wise and from the standpoint of speculative attraction. What is your estimate of this company's earnings for 1941 . . . allowing for higher taxes? Should the effects of the May-June steam locomotive and Diesel electrics show up in profits for the first half of 1941? Is the company on a regular Government tank production schedule now? What do you know of the status of production and deliveries on the company's gun carriages, scotch boilers for U. S. Defense account? Is the company having difficulty in securing sufficient raw material supplies? Taking all things into consideration, at its current price of 13⅝ does this stock come any where near discounting its immediate future?—T. N., Oswego, N. Y.

In the first six months of 1941, American Locomotive Co. earned $1.18 per common share as against a loss of 7 cents per share for the corresponding period of 1940. It does appear that the company is on the road to increasing profits at least throughout our current emergency. As to how much of this will be carried over into the common stock is of course dependent upon the rate of increase of earnings. Accumulated unpaid preferred dividends on the preferred stock amounted, as of June 30, 1941, to $42.75 per share. With 351,961 shares, excluding 33,039 shares of preferred held in the treasury on December 31, 1940, it can clearly be seen that there is a con-

siderable sum to be taken care of before anything can be paid upon the common stock. There may be some sort of a recapitalization plan approved by stockholders to clear up these dividends on the preferred stock, but this procedure is not necessarily probable in light of the $5 disbursed in 1940 and $5.25 paid so far this year on each preferred share. With a substantial backlog of over $200,000,000, it is believed that earnings for the full year 1941 will be in the neighborhood of $2 per share of common, in spite of higher taxes and higher operating costs. Most of the business is for armament works and with American industry just beginning to get into full production, the immediate future is quite promising. Orders for steam locomotives and diesel-electrics do not as a rule result in early profits. While it takes some time to construct these large machines, the early part of 1942 may see some of them completed. It has not been definitely ascertained whether the company is now on a regular tank production schedule although it is believed likely that such a condition does exist. A pilot tank, that is, the initial tank, completed by the company was delivered last spring. Other war materials, such as gun-carriages, are being speeded up and deliveries are increasing. Scotch boilers used in ship construction are also being rushed along. The company has been experiencing some difficulty in securing plate for production but such a condition does not appear to be any more stringent than in other companies in the same field of operations.

The financial position of American Locomotive Co. is improving with the more profitable operating results. As long as there are unpaid dividends on the preferred there is no chance of a dividend on the common stock. Therefore we feel that while your current commitment in the common stock could be held as a speculation we are not recommending additional purchases.

Round-up of Defense Orders

(*Continued from page 689*)

going 100 per cent into defense business. Bullard shipped machinery to the value of $11,702,000 last year and so far this year, shipments have been at the rate of approximately $21,000,000 yearly. Production facilities have been expanding and are expected to make possible shipments to the value of $24,000,000 in the first half of 1942 or at the annual rate of $48,000,000; better than 4 times greater than during 1940. Practically similar conditions prevail throughout the machine tool industry although not in all instances have the companies made such strides in meeting the needs of the nation.

As had long been expected, the automobile industry will be one of the mainstays of the defense effort through its ability to produce materials in great quantities and in an orderly fashion. But what was not so generally expected was the fact that this same industry has been able to apply its production line technique to many articles quite remote from the automotive field in which all of its experience was acquired. General Motors, in common with most other automobile truck and passenger car manufacturers, has large Government orders for trucks and other combat vehicles. But in addition to these, a large part of the company's backlog of unfilled orders is composed of aircraft engines and parts, which account for the greatest proportion of the backlog, ammunition and munitions, Diesel engines, fuses and countless other items. Domestic orders for these miscellaneous products already received, amount to over $1,091 millions and of this sum only a part has as yet been delivered. Deliveries of defense materials by this leading automobile manufacturer totalled $131,800,000 as compared with deliveries of $77,700,000 in all of 1940. During the final six months of this year deliveries for the period are expected to exceed $275 million and the peak of defense deliveries is not expected to occur prior to the last half of 1942. To take care of this business, General Motors has had to install practically new equipment for little of the automobile machinery is applicable to munitions work.

In cases where a company's output has been doubled or even quadrupled, gross income is practically bound to expand; although perhaps not in equal proportion. Nevertheless, after a certain point in production, certain costs remain unchanged regardless of the size of the output. Thus, operating profits are also bound to grow. In this case, however, the profit margins on most of the work which is intended for the Government is slim and added to that is the fact that taxes on earnings in excess of those of recent years will be further increased. Nevertheless, there will be something left over for the shareholders when all costs have been met and the amount will probably be no less than in most recent years. In other words, while the cost of doing business is mounting, the increase in the volume of business done will probably go a long way toward offsetting the higher costs and the emergency taxes. What the remainder will be cannot be said for much depends upon future developments.

Ten Stocks Favored in a War Economy

(*Continued from page 694*)

reported gross profits of $20,427,001 or better than three times larger than in any previous normal year of the company's history and at least two and one-half times greater than in 1940. Operating profits were increased in approximately similar proportions. However, the necessity of paying about $12,000,000 in income and excess profits taxes as compared with payments of only $2,500,000 a year ago prevented a comparable increase in net income after taxes and all other charges. Actually, the company reported earnings equivalent to $5.01 a share as compared with earnings of $3.69 a share last year and the previous high record of $2.62 a share reported in 1939. Taxes have been taking more than their share of Timken's operating profit but the influx of business has been sufficiently great not only to offset this heavy charge but also to allow increasingly large earnings per share.

The company's normally good working capital position has been improved in spite of the necessity for increased production facilities. At the close of June, net current assets amounted to $9,730,021 and cash alone was in excess of $5,000,000. There were neither bonds, bank loans nor preferred stocks senior to the 991,975 shares of common stock outstanding at the fiscal year end.

Business as "Unusual"

(*Continued from page* 668)

All branches of the industry—as well as clothing and shoes—are in for record demand.

But while numerous industries are reasonably assured of earnings better than in the several pre-war years—and this is especially so of the capital goods lines and the newer out-and-out defense industries, all of which had but small earning power over the period 1935-1939—only for a very small minority is there reasonable expectancy of 1942 profits exceeding those of 1941. This is because exceptionally large volume gains will be required to more than offset the probability of additional stiff increases in taxes.

If pressed to single out those most likely to top 1941 earnings, despite higher taxes, the writer would center on aircraft, shipbuilding, rail equipments, machine tools and farm equipments. A few others may also make the grade, but the future tax uncertainty—when related to the potentiality of volume expansion—makes even fairly confident forecast impossible.

The steel industry, for example, will continue at new high levels of production and substantial additional plant facilities are under construction or scheduled for future construction. But such expansion takes time and the 1942 potential for added volume is relatively moderate in ratio to present capacity. Therefore, relatively little increase in taxes or operating costs would be required to freeze earnings around present levels or even reduce them. This is especially true of the larger companies, for the greater the existing capacity, the smaller is the potential for significant percentage increase within any period of a year or two. Even with the better situated smaller steels, the potential for volume expansion is far less than that, for example, in aircraft or shipbuilding, rail or farm equipments, or machine tools. Allegheny Ludlum Steel, for instance, is now making deliveries at the equivalent of an annual rate of $87,600,000 and expects that expanding capacity over the next twelve months would permit boosting annual delivery volume by $13,000,000. But some of the added capacity will not be available until late in 1942; and when the maximum capacity now scheduled is attained, the increase over present deliveries will be but approximately 17 per cent.

The non-ferrous metals are all at fixed prices and as regards most of them production is virtually at a ceiling. Hence there is very little potential for earnings gains. There will be some expansion of capacity, substantial in individual instances, in chemicals, paper, the copper and brass fabricating field, and die casting—but it is problematical whether still higher taxes can be absorbed and leave a profit increment.

The oil and coal industries can expect some gain in volume but for the industries as a whole profit gains, if any, are likely to be relatively small. The same is true of the electrical equipments, especially the largest units, with virtually all eventual production probably to consist of direct or indirect defense work.

The building industry is in for a decline in residential construction and probably there will be no important gain over this year's exceptionally heavy engineering construction—at least not enough gain to make earnings increases likely. Office equipments will be unfavorably affected by priorities as regards materials for civilian goods and their defense work is unlikely to offset this completely.

The larger automobile companies are now well past the peak of earning power for the duration of the defense emergency, although some of the marginal producers should get at least some profit out of defense work whereas on civilian production they had been either losing money or making relatively little. The outlook for the motor accessory companies is similarly mixed. Although defense work profits will enable various of the better situated units to earn more than they averaged in the several pre-war years, it is problematical whether any can top 1941 earning power if taxes are raised substantially farther. The industry as a whole certainly will not better this year's profits.

Of all major industries, utilities are most vulnerable to further tax increases. For tobaccos and the great majority of companies in the food business earnings prospects are also subdued, to say the least.

What Price Commodities?

(*Continued from page* 686)

fangs. Mr. Henderson lets the cat out of the bag when he vetoes Mr. Baruch's suggestion for an overall ceiling on all commodities, with indications that it will be confined to 75 to 100 commodites, declaring that on many it would be politically inexpedient to set same. Currently, there are price ceiling schedules on 30 commodities; voluntary price ceilings on 14 others; while 36 are under full mandatory control of the Priorities Division of the Office of Production Management. In other words, even with the Price Control bill a law, it would not venture into too many new commodity quarters—yet.

Speculation through the organized commodity markets is being verbally discouraged but not entirely throttled by Washington. Commodity Exchange Administration officials realize that the trade must have an open market to hedge their inventories in, whether it be wheat, cotton, butter, eggs or potatoes. For 9 chances out of 10, the speculator is a buyer and can absorb the weight of the hedges. For with a sudden peace and burdensome inventories, without futures markets, the change might well bring a bigger than nor-

(*Please turn to page* 708)

DIVIDENDS

mal toll of bankruptcies.

Unfortunately, at times the speculative "gold rush" creates some abnormal situations. Because margins on potato futures are small, there has been a heavy increase in trading in that staple on the Chicago Mercantile Exchange. There is no shortage of potatoes over the country and little likelihood of exports developing. Furthermore, the article will hardly keep, even in cold storage, as long as corn or cotton. Yet, with Idaho potatoes (the tenderable grade) selling in Chicago for January delivery at 3.25c per pound, the new crop—now being dug out—can be purchased out there for around 1.20c per pound or less and transported to Chicago for about .75-cent. Even tacking on storage, financing and insurance charges, the Chicago futures price far tops spot evaluations. Indeed, Chicago January futures are selling .80-cent higher than those in the same market for this November delivery, whereas it only costs about .40-cent per pound to carry potatoes from November to January. Furthermore, with high potato prices, many that normally went to starch mills will now find their way into a market that may be suddenly cluttered.

Increasing demand for substitutes and synthetics is likely to occur in certain commodities. Fur felt bodies in hats formerly came from Europe and England. This year, our hatters have substituted a domestic product. Cottonseed oil has been scarce here. Peanut oil has replaced it to a great extent. During the 1940-41 season ending August 31, oil mills used 557,937,000 pounds of farmers stock peanuts in the production of crude peanut oil, against only 71,946,000 the previous year. Paper clips are being rationed, while pencils will have smaller brass tips, clips and erasers. Coal tar will substitute for French flowers in milady's perfume. Synthetic wools may appear in some cases. Synthetic rubber may be manufactured from petroleum, that is if Uncle Sam will pitch in with a contribution to the private companies to build the necessary plants. Gradually, we are all in a hundred small ways going to feel the sting of a war-time economy.

Domestic earning power is bound to increase quite materially with the defense program augmenting and/or preceding civilian demand. Increased taxes probably will not exercise a real brake on spending until they are due, beginning next March. Meanwhile, unable to buy in certain lines, the spending is going into selected fields in greater volume. Bureau of Census economists indicate food sales in 1941 rose 5% over 1940; feel that they will be 12½% ahead of 1940 in the coming year. Higher prices have not yet slowed up food shoppers.

Higher food prices inevitably cause labor, particularly of the white collar type, to demand increased wages. The latter, in turn, force industrial concerns to lift prices of their finished products. Farm parity prices, referred to previously, represent an equality of exchange relationship between persons living on farms and those not living on farms. Thus, if industrial prices of goods the farmer must buy go up and his bushel of wheat, with 1909-14 as a base period, can buy less, then that parity price may be adjusted upward to compensate. Hence, a figure of 110% or 120% of parity may not always be stable. Here again, we have an example of a vicious cycle that may eventually require strict Government controls.

Summed up, a larger national income—despite increased taxes and possible forced Government savings and lendings—will carry with it an increased demand for commodities. This will not be filled, in most cases, except at increased prices. Provided such increases are not exhorbitant, present price control legislation may suffice. In any event, it is likely that it will be given a trial of six months to a year's time. If unsuccessful then, look for strict Government regulation along the Baruch-suggested lines. Opposition politically, then, is likely to be stilled by virtue of higher prices.

Inflation's Impact on YOU

(Continued from page 683)

be paid by corporations and by middle-class and well-to-do individuals. Very little of the increase will be paid by the masses of wage workers and farmers—and it is these who are receiving the major portion of the increase in purchasing power, as compared with 1939 or 1940.

Next year's tax revision quite likely will bring additional boosts for corporations and present personal income taxpayers, but instead of concentrating almost entirely on the matter of revenues it can virtually be taken for granted that the Administration also will give inflation control a high rank among its objectives. The pill that labor will have to swallow may be sugar-coated. Quite possibly, as a modified form of forced savings, it may take the guise of a sharp rise in Social Security taxes. In any event there seems to be a much better than even chance that before we have gone very far into next year a goodly part of the increased purchasing power of the public will be neutralized by use of the Federal taxing power in one way or another.

It is possible, of course, that the world situation will force us to divert to arms production a considerably larger percentage of our total productive effort than is now scheduled. In that case, and in some proportion to such arms expansion, the inflationary forces would become stronger and the Government controls would have to become more rigorous.

Nevertheless, the writer ventures the reasoned guess that in this defense emergency the cost of living index—now about 89 and projected heretofore as possibly 95 for next year—will not exceed 100 at maximum or about the average of 1929. The same guess would still stand even if we get into all-out war, because that would make stringent controls—now encountering political difficulties—feasible and certain.

Such a prospect calls for prudent and intelligent adjustments in investment policy—but it cannot justify fear of the integrity of the dollar per se, suspicion of the advantages of life insurance nor any radical departure from the normal considerations which govern prudent individuals in exchanging their dollars for commodities, jewels, real estate, etc. The writer, it so happens, sold his home in 1928 and with part of the proceeds built a better one in 1933. That proved to be fortunate timing of action in the inflation-deflation cycle. But while it is quite probable that the combination of reduced residential building and higher public purchasing power will induce additional real estate inflation of some degree over the next several years, anyone listening to the inflation argument for buying a home must bear in mind that prices are not now deflated but already fairly high.

And on this whole subject of inflation and what to do about it, it must be noted that the cost of living index cited heretofore is nothing more than a statistical abstraction. Its rise means far more to some people than to others because of great differences in the living standards which determine the apportionment of the family budget.

As a matter of fact, the Conference Board living-costs index, and also a similar index compiled by the U. S. Bureau of Labor Statistics, is calculated to measure the living costs of wage earners and low-salaried employees. It is, therefore, weighted—allowing 33 per cent of the family budget for food, 20 per cent for housing, 12 per cent for clothing, and 5 per cent for fuel and light. This is a total allowance of 70 per cent of outgo for four essentials of life. But people with middle-class incomes, or better, do not spend a third of their budget for food nor 70 per cent of it for the necessities. The higher the income, the less the percentage spent for necessities; and the greater the percentage spent for insurance, recreation, servant hire, education of children, etc. Also the greater the margin of annual savings.

Itemizing the components of the Conference Board index, we find food up about 16 per cent since the start of the war; and this accounts for the major part of the aggregate increase in living costs, because through August the cost of housing was up only 2.7 per cent, clothing was up only 3.6 per cent; fuel and light—due almost entirely to higher coal prices—was up 5.2 per cent; and "sundries" were up only 1.7 per cent.

It is to be doubted that the actual living cost of the average reader of this article has increased by more than 3 to 4 per cent since the start of the war. It is to be doubted that it will be more than 8 to 10 per cent by the end of next year. If you now have, let us say, a fixed income of $10,000 a year from salary or investments, the chances are that in 1942 its purchasing power at worst will average no more than $500 less than at present.

On this $10,000 income, if you are married, your Federal income tax payable next year will be increased by approximately $775. Thus, it would be prudent to allow for, say, a total shrinkage in purchasing power next year—including higher living costs and taxes—of $1,275 or the equivalent of about 12 to 13 per cent of your total income. On a $5,000 income the combined shrinkage probably would be around $500 or 10 per cent at most. These rough projections appear sufficiently well-founded to give you a fairly good idea of the scope of your needed adjustments, attempting to look no more than a year or so ahead.

The possible avenues for readjustment are: (1) to meet part of the drain by reducing one's annual savings; (2) to cut down on various types of non-necessitous spending; (3) to explore the feasibility of re-adjusting investment securities held, with the object of increasing income return without undue sacrifice of safety. In a high percentage of instances the latter approach offers considerable opportunity for improvement both in income return and in the risk factor, due to the foolish tendency of many investors to sit tight on holdings which long since have ceased to meet the objectives for which they were originally purchased. More detailed help on this practical problem will be found in the article by Mr. Williams, heretofore referred to, and in its accompanying sample portfolios.

In general terms, the fixed-income investor had the advantage of a rising purchasing power of money from 1929 to early 1933. Since then this relationship has been exactly reversed, for the price rise we are now seeing—sharp though it be—is really a supplement to the major upward trend in the cost of living which began in 1933 and which was but temporarily and relatively briefly interrupted by the "inventory depression" of 1937-1938.

In all major inflationary periods—and this one is not subject to any doubt—even the most conservative individual investors will be well advised to reduce their holdings of highest grade fixed-income securities and to increase the percentage of funds in medium grade bonds, preferred stocks and equities. In certain appropriate instances, gilt-edged bonds can be dispensed with—provided substituted securities are carefully selected and watched closely.

Beyond the problem of inflation, no doubt virtually all readers of this publication are wondering what the longer future holds for the American private enterprise system. I can not give you any completely satisfying answer on that, since so much depends upon the outcome of the war and the reaction of that outcome upon our political situation. Partly on faith, partly on the demonstrated rapid improvement in the basic position of the American-British combination, I personally believe that Garmany will not dictate the peace and that, therefore, in the post-war world America will continue to be master of her own destiny.

On that assumption, there is probably a much better than even chance that the average investor's fear of what our continuing economic and social evolution holds for him will prove to have been very considerably exaggerated.

Changing World Balance of Power

(*Continued from page 675*)

machine where it is the strongest: on land. With the invasion of Western Europe apparently not feasible as yet, the Russian front offers not only the best, but perhaps the last, opportunity for a long time to come, of doing so. Time is no longer working for the Allies.

Certainly the Allied position is infinitely better than it was a year ago when but a handful of trained men was available for field service and when the United States could fully equip but a few divisions. With certain Latin American countries under the spell of Hitler's victory, it was the United States that looked toward isolation in a world controlled by the Triple Axis Powers.

Fortunately, these fears have not materialized. The British fleet is in better control of the North Atlantic than a year ago. In fact, it is the Continent of Europe, or rather the eighty million Germans, that have become more isolated politically and economically from the non-European world than they were one year ago. No longer does one hear about the dream of dividing the world into economic blocs. Rather, the Russian resistance and the consequent influence upon Japan and Latin America have confined the Second World War once more to Europe and to the struggle for political and economic organization of the Continent, in which the Germans are giving ample evidence of not being able to obtain support of their fellow-Europeans.

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Happening in Washington

(*Continued from page* 671)

Portugal are being watched closely, and if it appears that Hitler is preparing to take or use the Azores or Canary Islands, the United States will occupy them first, regardless of the attitude of those nations. The procedure may be like that in Iceland, with the British moving in first and the U. S. taking over later.

Official predictions as to the course of the war in Europe are exceedingly wary. Many informed officials believe that the war may end in an Axis defeat by a year from now, basing this on the hope of a break in German morale due to British bombings, uprisings in Italy and conquered territory, and failure to knock out England. But they caution that this possibility should not permit any let-up in efforts to give all-out aid to England, and Washington is preparing for a long war, ten years if necessary. Of the ultimate outcome there is no doubt.

British requests for an American Expeditionary Force are not expected unless and until the theatre of war shifts greatly. For the time being our Navy is all the armed assistance Britain needs. But in case of an invasion of England, or if the British establish a sizable foothold on the Continent, there might be a request for troops which the American public would be inclined to grant. At any rate the Army is preparing to train and equip an expeditionary force in case it is ever needed.

The immediate demands of the defense effort have not caused the Administration to forget its long-range ideas of economic planning. On the contrary, the New Dealers are giving much thought to post-war planning, and are attempting to dove-tail defense planning into this program. Before the war is over the Government will be in complete control of all business activity, regulating prices, production, imports, exports, and use of material and capital. Such controls will have to be continued in the post-war period, it is argued, to prevent deflation and depression and to facilitate readjustment to peace-time activity. So social reform goes hand in hand with defense, temporarily shaped to the ends of the emergency.

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Outlook for Security Prices Under Adjustments to War

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and simply defined as the excess over average annual earnings of several pre-war years. It is not inconceivable that we may ultimately have an "excess profits" tax rate of 90 per cent or more—especially if we assume, or have foisted upon us, a formal status of war. In that case, people who had put any considerable portion of their eggs in the war baby basket would find themselves out on a limb.

Coming events sometimes cast a shadow before them. Our weekly average of representative armament stocks has a far from brilliant background. It now stands at approximately 36, as compared with 31 on September 1, 1939, the day the war started; and its high for the entire war period was reached in early November, 1939, at approximately 43.

Our average of 15 high grade investment stocks, while showing about a 6 per cent decline for the war period as a whole, has for many weeks been showing greater strength than the armament stocks or the market as a whole, and just prior to the recent general recession had attained a new recovery high on the trend since the May lows were established.

As repeatedly observed here, selected preferred stocks and bonds of medium and speculative grade have given an excellent account of themselves, and we believe they will continue to do so. Under current and prospective conditions, the closer your claim is to the earnings, the better off you are likely to be. For most investment or speculative-investment porfolios, we favor placing the major part of funds in securities of this type, with the balance judiciously apportioned between cash and equities, and with outright "war babies"—if included at all—making up the smaller part of the equity commitment.

A series of selected and representative portfolios, set up to serve varying objectives, is presented in the special article by Mr. Williams, beginning on page 678.—Monday, September 29.